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OVERSIGHT OF THE FOOD STAMP PROGRAM

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

AND THE

SUBCOMMITTEE ON NUTRITION

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

MARCH 19, 1984—RALEIGH, NC
MARCH 21, 1984—WASHINGTON, DC
APRIL 30, 1984—WASHINGTON, DC

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OVERSIGHT OF THE FOOD STAMP PROGRAM

MONDAY, MARCH 19, 1984

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Raleigh, NC.

The committee met, pursuant to notice, at 10 a.m., in Raleigh, NC, Hon. Jesse Helms (chairman of the committee) presiding.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order. The purpose of this hearing is to gather factual, objective information from those who work with the Food Stamp Program firsthand on how well the existing program is working and how to make it work better and, if possible, with less cost to the taxpayers.[1]

The committee wants to learn how well legislative reforms it has already adopted, intended to prevent fraud and abuse and to target benefits to the poor—how well these changes—are working in practice. We need to identify remaining areas of the program which are susceptible to fraud and abuse or to cumbersome administration so that we may pursue legislative remedy for such problems as we may discover. We need to know what new tools may be needed in order to combat effectively fraudulent misuse and abuse in the Food Stamp Program.

A lot of Americans are not aware that the Food Stamp Program is the second largest Federal welfare program in existence today. More than $12 billion of the taxpayers' money is spent each year with the intended purpose of providing nutrition assistance to low-income families. Now, no Senator and, I would think, no citizen begrudges federally sponsored assistance through reasonable needs-based programs to a poor widow or widower, a disabled person who is unable to work, or other deserving needy people who cannot provide for themselves. Unfortunately, this objective is not reached when ineligible recipients defraud the taxpayers and abuse the compassion of the American people by obtaining food stamp benefits under false pretenses.

The tragedy of fraud in the Food Stamp Program is that the truly needy are those being done the most harm because of wide public disfavor for programs perceived as wasteful and extravagant. The hard-working and overburdened taxpayers are justified in resenting such waste and abuse of their tax dollars.

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[1] See p. 143 for the prepared statement of Senator Helms.

During the past 3 years, the President and the Congress have attempted to bring about reforms in the program that would provide better targeting of the program to the poor, while reducing the chances for fraudulent participation. Over 30 provisions specifically designed to reduce fraud and abuse have been adopted, many of them at my insistence. Even with these significant changes, however, I continue to receive a multitude of reports of substantial fraud and abuse in this and other welfare programs.

Now, these reports come not only from working citizens, but also from many caseworkers, from honest recipients who resent cheating, and from fraud investigators, who work with the program on a daily basis. Now, one investigator recently told me—and he drove many miles at his own expense to report to me—"Senator, there's no way to overstate the corruption in the Food Stamp Program. Everywhere we turn," he said, "We find people are making a big business of stealing from the taxpayers through the Food Stamp Program." Law enforcement officials in North Carolina have told me that the problem of the greatest magnitude, in terms of numbers, is the incredibly large amount of fraud in the Food Stamp Program.

Many of the reforms of recent years have been enacted based on recommendations from conscientious social service workers, fraud investigators, prosecutors, and others who have provided suggestions, helpful suggestions, for improvement in the program to make it less susceptible to fraud and abuse.

Once again, we are to hear from those on the front line to determine what additional measures may be needed to continue the fight against fraud, waste, and abuse. We will have an additional hearing in this series later this week in Washington. I introduced legislation in the Senate last fall to address some of the remaining problems that had been brought to my attention. The Food Stamp Integrity and Accountability Act, which bears the legislative number S. 1993, is drafted carefully, in such a way that the provisions would have no impact at all on those in genuine need for food assistance and who have been made eligible by Congress. However, the bill does attempt to address abuses, great and small, which have been cited by those who are familiar with the existing Food Stamp Program. Recipients who have abused the program or benefited from its existing loopholes will indeed be affected by having their benefits reduced or, in some cases, eliminated. And they won't like it, and that's fine with me. If they're abusing the taxpayers of this country, let them protest and let them do whatever they want; but we are going to eliminate fraud and abuse in this program insofar as my cable tow reaches.

The reform proposal with the largest savings impact addresses State overissuance effort rate. I should emphasize that it does not reduce monthly benefits to legitimate or even to ineligible recipients, for that matter. Rather, the thrust of the provision is to require the States to improve their outrageous and dismal overissuance rates. Now, it's so easy to give away somebody else's money. That's one of the problems with the Food Stamp Program. Up to now, there's not been a great deal of accountability. The States don't have to give away any of their money, and I think we ought to take a look at that situation.

Now, I've suggested that the States or any State should be able to exercise the option to operate a low-income nutrition assistance block grant, designed by the State in lieu of the Federal Food Stamp Program. Now, under this system, States with innovative ideas could run their programs without direction or interference from Washington. As such, it would enable those States, wishing to attempt it, the ability to strike out in new and possibly more innovative and effective directions. States could tailor nutrition assistance to fit individual needs and desires of their citizens. This proposal has been adopted by the Senate once, and I'm optimistic that we can again win approval and, ultimately, adoption into law.

I became chairman of the Senate Committee on Agriculture, Nutrition, and Forestry in January 1981. That committee has the responsibility of monitoring all aspects of agriculture, feeding programs, such as food stamps, school lunches, et cetera, plus the Nation's forests. Now, it's my duty to insist that all programs under the committee's jurisdiction be operated efficiently and in the manner that's fair to the taxpayers. It's because of this responsibility as chairman of the Senate Agriculture Committee that I take an interest in the proper oversight of the Food Stamp Program.

Most citizens are surprised to learn that the Food Stamp Program is actually the largest program within the Department of Agriculture, comprising with other food assistance almost half of the entire budget of the USDA. Now, we have witnesses today representing every level of responsibility—from the eligibility worker who interviews food stamp recipients, to those whom we hope most food stamp recipients never meet, the fraud investigators and prosecutors.

First on our witness list is Ms. Melinda Hamrick, director of the Moore County Department of Social Services, and Tony Parker, a county commissioner from Moore County. If they will come forward, we will welcome them and express our gratitude to them for coming.

Good morning. How do you do?

Ms. HAMRICK. Fine, thank you.

The CHAIRMAN. Nice to see you.

Ms. HAMRICK. Nice to meet you.

The CHAIRMAN. You may proceed.

STATEMENT OF MELINDA HAMRICK, DIRECTOR, MOORE COUNTY DEPARTMENT OF SOCIAL SERVICES, CARTHAGE, NC

Ms. HAMRICK. Thank you. I appreciate the opportunity to share with you our experience and ideas concerning the community work experience program in Moore County. As you know, we're the only county in North Carolina who has a community work experience program for food stamp recipients. The program began officially October 1, 1983, but did not begin working with clients until November 1, 1983. Thus, our experience in food stamp community work experience is limited to a 4½-month period; and the following observations are based on this short timeframe.

The Moore County Department of Social Services began a pilot project for AFDC community work experience in July 1982. Because of the success of this program, its positive acceptance by both clients and the community in general, and its cost effectiveness, the social services board and board of county commissioners requested that we explore the possibility of having a similar program for food stamp recipients. Thus, we submitted a proposal for food stamp community work experience and work registration and job search.

We tried to capitalize on our experience and success with the AFDC community work experience program and wrote our proposal so that the two programs would be identical, at least as far as how clients were referred, the assessment process, the development of the client work plans, and the components available to the client. Because of the differences in regulations, exemptions, and penalties between AFDC food stamps, and work registration and job search, there were some administrative differences, depending on which program the client is in.

The overall goal of all three work programs in Moore County is to give the clients the opportunity, the guidance, and support services necessary to enable them to become more economically self-sufficient and move off the welfare roles and into unsubsidized employment. We believe that most recipients of AFDC and food stamps would rather be self-supporting than dependent on welfare.

The clients who do not meet exemption criteria are referred to the CWEP unit from the AFDC or food stamp unit. Each client has an assessment interview with a social worker to determine their work history, skill level, interests, and any barriers to their getting a job and keeping it. If barriers are identified, the social worker and the client try to develop a plan to overcome these barriers. Transportation is the most often barrier identified in our county, with available affordable day care second. The client and worker then develop an employment plan. This plan can contain one or several components and is individually designed to meet the particular client's needs.

Clients who are determined to be "job ready" are usually referred directly to the employment security commission for intensive job search. Another component is self-directed job search which is a 2-week intensive program which motivates clients, gives them instructions on how to conduct themselves in a job interview, and how to sell themselves to employers. The first week is spent in class work and the second is spent in our telephone bank with clients using the phones to get interviews. They go to the interviews; and by the end of the 2 weeks, many clients have secured paid employment.

Clients who are identified as needing to complete their GED or high school equivalency or other training to enhance their employability may be referred to the community college for this. The instructors sign the clients' timecards to insure they are actively attending and participating.

Placement on work sites to actually receive a work experience is another component. This is especially helpful for clients who have little or no work history, no real skills, and poor work habits. Work site placements enable a client to work toward improving their skills and developing a good work history, while at the same time, they are providing up to 50 hours per month of community service.

Clients are encouraged to do job search on their own, no matter which component of the program they're in. They may move from one component to another as their goals and circumstances change.

This is the essence of our program, and it has a strong social work emphasis. We believe that this focus on the client's needs and skills makes this a stronger program than a pure workfare program. We feel very strongly that providing the supportive services and encouragement to the client during their participation increases the likelihood of their getting off the welfare roles, but—more importantly—staying off.

Several members of our staff had an opportunity to observe a food stamp workfare program in another State last fall. The primary goal of that program seemed to be to reduce welfare roles—food stamp roles. Most of the welfare savings they reported was due to penalties, rather than employment of clients. No consideration was given to reducing barriers to employment that the clients might have, and there was no provision of front-end job search, preparation of training activities. There was no provision for individual employability plans. Seeing this program in operation confirmed for us the validity of a more client-oriented, comprehensive work program.

Despite the short duration of our program for food stamp recipients, several observations can be made: Compared to AFDC recipients, the food stamp recipients as a group seem to have better work histories, more education and job skills, and are more highly motivated about the opportunities this program affords.

A much higher percentage of the referrals are men, most between the ages of 18 and 25 or over 50. All households that have been sanctioned have had fairly high incomes and have been receiving relatively low food stamp allotments. Food stamps seem to be viewed by the clients referred to food stamp CWEP as an income supplement during times of economic crisis, rather than an ongoing part of their lives.

There are, of course, exceptions to these observations; and they are made after only 4 months of program operation. A longer period is needed to determine if these trends continue.

One recommendation we would make is that the regulations and exemption criteria for AFDC CWEP, food stamp CWEP, and work registration and job search be made more compatible. An example of this is in the age of children in the home in order for a parent to qualify for exemption. In AFDC CWEP, parents with children under 3 are exempt. In food stamp CWEP, the age is 6, while in work registration and job search, the age is 18. Also, some clients are exempt from work registration and job search, but required to participate in CWEP. Since the whole household is sanctioned for nonparticipation, the discrepancy sometimes causes problems. Another discrepancy is the duration of job search activities allowed—30 days in food stamp CEWP and 8 weeks in work registration and job search. These differences in regulations make administration of a comprehensive program like ours more difficult.

Another recommendation would be to only allow departments of social services or agencies who administer the Food Stamp Program to be able to apply to administer work fare. For any type of employment program to be effective, there must be good cooperation on the part of income maintenance staff and CWEP staff and open lines of communication to and a belief in the program. As the regulations are now written, quote, any State food stamp agency or other political subdivision in any State, end quote, may apply, which could result in having this program imposed on an agency administering the Food Stamp Program without their cooperation, planning, or involvement. This could also result in a county operating a program not supported or endorsed by the State agency. Without the cooperation, advice, technical assistance, and support we've received from our State agency, this program would have been impossible for us to manage.

We would also recommend that a community work experience program or a work fare program continue to be optional for counties and States, rather than mandated. To be successful, such a program needs the support and endorsement of the agency, county government, and the community.

Finally, we would recommend that more financial incentive be made available to counties who participate in a food stamp work program. Since the food stamp coupons are 100 percent Federal money, the county receives no direct financial benefit for welfare savings as a result of the program.

Again, I appreciate the opportunity to share our experience and recommendations with you. We believe we have a comprehensive program which greatly benefits clients in their efforts to become self-supporting. The program is supported by our community and has resulted in more positive attitudes about the Food Stamp Program in general.

The CHAIRMAN. Ms. Hamrick, that was an excellent—you've given us an excellent statement; and it illustrates the point that some of us have been trying to make, that all wisdom does not reside in Washington, DC. Some days, I look around carefully and I don't find any at all. But the creativity and the dedication of people on the local level is the "make or break" factor in so many of these things. Now, I believe Moore County is the only county in North Carolina that has such a program for food stamp recipients?

Ms. HAMRICK. Yes, sir.

The CHAIRMAN. Aren't there, oh, six or seven counties that have work fare for aid to dependent children?

Ms. HAMRICK. Yes, sir. There's seven counties.

The CHAIRMAN. And you have it also for ADC?

Ms. HAMRICK. Yes.

The CHAIRMAN. I think that's great, and I appreciate your statement.

Mr. Commissioner?

Mr. PARKER. Yes, sir.

The CHAIRMAN. Delighted to have you here this morning, and I appreciate you driving up. Did you have any rain while you were coming?

Mr. PARKER. Just a sprinkle, sir.

The CHAIRMAN. Just a sprinkle?

Mr. PARKER. Yes, sir.

The CHAIRMAN. Well, we had decidedly more than that here earlier this morning. We welcome you, and you may proceed.

STATEMENT OF A.E. (TONY) PARKER, MOORE COUNTY COMMISSIONER, AND MEMBER, BOARD OF SOCIAL SERVICES

Mr. PARKER. All right, sir. I'd just like to make a few off-the-cuff statements, if I might. I don't have a prepared statement, as Ms. Hamrick had; but I've been a commissioner in Moore County for 8 years. I've served on the board of social services for approximately 4 years. I'm going to give you a little history that led up to us initiating this work fare program for food stamps in Moore County.

Back in 1980, I read an article in a New Jersey—in a newspaper pertaining to a New Jersey town that allowed people who could not afford to pay their taxes because of inflation and the high cost of living to do community service work to pay off their taxes. I clipped this article and carried it to, at that time, our social service director, Calvin Underwood. And we had a long conversation about whether or not this could work in Moore County for welfare recipients. He said, "Well, there's not such a program now; but I'll file it away."

It was later on that year that Calvin called me into his office and said, "You know, there is a program that we might be able to participate in; and it's called work fare." And I gave him my opinion that I thought it was a good idea, where welfare recipients could pay back the taxpayers for the benefits that they had received. It was not long after that—in fact, it was in 1981—that the county commissioners—at that time, I was serving as vice chairman of the board of county commissioners—gave approval of this plan. The board of social services and Mr. Underwood made a feasibility study and decided that it would be good for Moore County, it would be a tax-saving effort, if he could implement this type of a program in Moore County. Our program is called CWEP or community experience program.

That following budget year, 1983, we put into our budget moneys enough to implement this AFDC work fare program, and it was a tremendous success. We've got a lot of successful stories to tell about AFDC recipients. Ms. Hamrick didn't elaborate on that, but there's numerous reports of people that found jobs in private enterprise; people that actually, after finding out that they were going to have to do community service work to pay back for their AFDC payments, found employment; some of them actually became self-employed. So, we've got a lot of success stories there.

But because of the success of the AFDC work fare program, we found a need to implement the work fare program for food stamps; because you're dealing with more people, people that have better experience in the private enterprise, you might say. At the same time, most recipients of AFDC are also food stamp recipients. So, you can cover the vast majority of AFDC recipients when you have the Food Stamp Program.

So, the commissioners once again approved this work fare program in Moore County; and it was budgeted for in the 1983–84 budget. It went into effect in October as Ms. Hamrick said. It's a new program, but so far it's proven to be a successful program.

In Moore County—you mentioned "a tool" earlier, you "need a better tool." And in Moore County, we see that work fare is the tool for cutting deficits on all levels of governments, whether you're talking about local, State, or Federal level. It's a tool that, if it's implemented, can certainly save the taxpayers money; it also makes sure that the truly needy are provided for. It never takes a dollar from a person that needs it, but it funnels those needed dollars to the people that truly need it. It takes the people that would fraud our Government, abuse our Government, off the welfare roles and encourages them to find a job. If they're not able to find a job, then we find a job for them in community service. It's done a tremendous amount of good in Moore County. It has reduced the AFDC roles, if I can remember—and you're better on the statistics than I am. But it seems like there were around 1,390-some-odd AFDC recipients prior to this program in Moore County; and, now, it's down somewhere near 1,000. Is that true?

Ms. HAMRICK. Yes.

Mr. PARKER. It seems like that's the figure that rings a bell. And we're experiencing a similar reduction in the roles of food stamp recipients. So, I see it as a tremendous tool. As Ms. Hamrick mentioned, I think it should be a voluntary-type thing nationwide. We're the only county in the Nation that has a dual program, AFDC and food stamps; and I think that other counties, when they see the success that we've had in Moore County, will agree that it's something that they need in their county also. And as a county commissioner and as a person who is recognized as a fighter for the taxpayers in Moore County, it has been something that I have been willing to speak to civic clubs and groups in the county—our chamber of commerce and all of our civic clubs highly endorse this program in Moore County. It gives them the feeling that the commissioners and the county employees are working for the taxpayers, rather than vice versa, the taxpayers working for the government.

The CHAIRMAN. Mr. Commissioner, you've just made the best argument for more attention nationwide for this program, work fare, by whatever definition that I've heard. Both of you have provided testimony that will be printed, and I will guarantee it will be placed in the hands of every Member of Congress and a lot of other folks as well.

I've been working on this concept since 1981 and before, and I hear the strangest sort of argument against it from political types who say, "Well, it's demeaning." Well, I don't know why it should be demeaning to suggest to an able-bodied citizen that he or she ought to put forth a little effort to improve their lifestyles, to make a contribution toward the sustenance that they're receiving from their fellow citizens. It really doesn't bother me—I don't want to demean anybody; but if we don't get a handle on the cost of these welfare programs, there won't be a chance to receive or to restore the kind of economic stability in the Government.

Now, do you ever hear anybody complain about your suggestion that you want to help them get a job?

Ms. HAMRICK. There are a few clients who resist it, but we've gotten very good cooperation from the majority of them.

The CHAIRMAN. Who do the people who don't want to do any work—what do they give as their reason or excuse?

Ms. HAMRICK. A lot of them give transportation as a reason; and in our county, it's valid reason. There's no countywide transportation system; and for some of the people in outlying areas, that's difficult. One of the things that we've done to try to aid with that is use schools which are in the community as work sites so that transportation is not as much of a problem. And sometimes clients can ride the school buses which, you know, has enabled that.

But, you know, I think that—the premise that we have is that most people would rather be off welfare and would rather be self-supporting, and I think they see this program as a way to give them some skills to do that. Most of the clients, we've found, have been very receptive, even to work site placements which have given them a new self-image and given them a direction in their life that they didn't have.

The CHAIRMAN. Well, that's the point. I think most people, if they realize that all of a sudden they are being productive and paying their own way or part of it—there's a certain amount of pride that comes with it. On the other hand, if administrators—be it the Federal Government or the State or whatever—if they just say, "Here's the money," nothing very much is done toward the incentive.

Mr. PARKER. Could I comment on that just a second?

The CHAIRMAN. Sure.

Mr. PARKER. You mentioned if you'd heard any complaints, and I have. As a county commissioner, I get numerous phone calls pertaining to social programs because I serve also on that board. But some of the complaints that I've received are from people that are employed, but employed in what you might call the underground economy; they are people that are working every day and drawing salaries that are unreported. And when they find out that they have to participate in a 50-hour-a-week job, they can't do their other job and participate in work fare also. So, when they come in for certification, they might find out after they've been certified that they're going to have to do this community service work; and all of a sudden, they've found another job.

The CHAIRMAN. So, what they're saying to you, until this occurs, is that, "I don't have a job."

Mr. PARKER. Right. Because then they can draw the welfare. But the minute you tell them, "Well, we've found you a job," then they also found a job, the job they already had.

The CHAIRMAN. I see.

Mr. PARKER. I know of two or three cases where people that have health problems—let's say "health problems"—a drinking problem. They can't go to that community service site because of their condition. So, therefore, they can't—they can't be—they don't qualify; they don't show up for work.

The CHAIRMAN. Nobody wants a drunk around them.

Can you give me any reason why every county in this State or every county in this country ought not to consider it seriously?

Mr. PARKER. I think they should all consider the cost, in comparison—the cost of the program, in comparison to the savings to the taxpayer, is so tremendous that—that I think they should all consider it. And I would certainly recommend it from a tax-savings standpoint.

You know, we see a lot in the papers and hear a lot of politicians talking about ways to cut the Federal deficit. They say, you know, "cut military spending" or "raise taxes." But, in my opinion, neither of those cases could do more good toward cutting the Federal deficits and helping to balance budgets on State and local levels than getting a handle on programs like food stamps and other programs, like the AFDC, medicare, medicaid, and Federal pensions. Those things, in my opinion, would go a long ways toward cutting these runaway, you might say, Federal deficits—more so than raising taxes and, once again, penalizing the taxpayers or cutting military spending which is a legitimate reason for spending money.

The **Chairman**. I was on an airplane last night coming down—this is extraneous, really. But a young fellow, very well intentioned, said, "Now, cut that defense spending. Cut that defense spending." I said, "Fine." I said, "Which one of the weapon systems do you want to eliminate?" He said, "What?" I said, "Well, you just don't cut across the board. You have to pick out the weapon system that you don't think we need."

As far as raising taxes to balance the budget, one of the problems we've had for years is the amount of money taken by governments at all levels out of the private sector has been increasing——

Mr. **Parker**. Right.

The **Chairman** [continuing]. Creating competition for the money that's remaining, contributing to high interest rates and all the rest of it. So, the way to go is not to raise taxes, but to cut spending and that's what we are going to do.

Well, I thank both of you for excellent testimony.

Ms. **Hamrick**. Thank you.

The **Chairman**. I congratulate you on the work you're doing and I hope you'll let us work with you.

Mr. **Parker**. Thank you very much.

The **Chairman**. Thank you, sir.

Now, we have a distinguished panel of Charles Brewer, who is U.S. attorney for the Western District of North Carolina; Sam Currin, U.S. attorney for the Eastern District; and Ken McAllister of the Middle District. If you gentlemen will come forward—how are you doing, Sam?

Mr. **Currin**. How are you doing, sir?

The **Chairman**. Charlie, we've got to stop meeting like this. I saw you Friday night.

The Chair doesn't really care which one of you goes first. So, if you want to flip a coin or whatever—I called—they're listed here: Brewer, Currin, and McAllister, in that order. If you want to go in that order or any other order, it suits me.

STATEMENT OF CHARLES BREWER, U.S. ATTORNEY FOR THE WESTERN DISTRICT OF NORTH CAROLINA, ASHEVILLE, NC

Mr. **Brewer**. That will be fine. Sir, I'm sorry for bringing the weather with me from Asheville. I was in Washington last week very soon after the Federal grand jury in Asheville had returned a number of bills of indictments on food stamp fraud and was going to a committee meeting there, and I noticed as I was driving in from the airport that I passed by the Bureau of Printing and Engraving on one side of the street and on the other side of the street was the Department of Agriculture. And it didn't slip my notice that we've been talking among the three of us that food stamps have become a second currency in North Carolina. That has been shown in undercover operations that have now surfaced and indictments that have come forth in both the eastern district and middle district, as well as ours.

The major thing that I've observed from what we've seen, the major problem that I see, is the lack of incentives on the part of the State to have any active involvement in food stamp prosecution. The point of the matter is that the Food Stamp Program is funded essentially 100 percent by the Federal Government. So, when you have overpayments, whether they result from fraud or overissuances in regard to mistakes made within the departments of social services, or theft or whatever, this comes strictly out of Federal money and doesn't cost the State anything.

And this is true despite the fact that there are incentives built in the system as it now exists to try and encourage the State's participation. When they hire food stamp fraud investigators or take time in prosecuting the cases, the Federal Government takes up 75 percent of the cost of this; and the money returned to the coffers as a result of these prosecutions, 50 percent of it's allowed to be retained by the States. Of course, this is for the purpose of trying to encourage the States to participate in this; but it simply does not seem to have worked.

Soon after I took office, I sent letters to the—to each of the directors of social services of each of the counties in my district in which I requested that they supply to me information relating to the numbers of prosecutions that they had been involved in over the last several years. I expressed in that letter our willingness to participate in the prosecution of food stamp fraud in their various counties and willingness of Federal investigators to come in at their request and to help. I received a response to maybe a third to a half of these letters which seemed to indicate there'd been practically no food stamp prosecutions. And even though these letters have been in the hands of directors of social services for almost 2 years now, I have—other than the cases that we've prosecuted in Mecklenburg County and Buncombe County—not received any requests from any of the departments of social services to prosecute any cases or to send Federal investigators into the areas to help prepare them.

Mary Jane Hollyday, soon after I was sworn in as U.S. attorney, became the chairman of the board of social services in Buncombe County; and she reported to me that in Buncombe County, which is one of the two largest counties in my district, there hadn't been a single prosecution for food stamp fraud in the last 3 years.

Now, of course, the significance of this, Senator, is that there are only a very limited number of Federal prosecutors in the western district. In fact, there are only seven attorneys that prosecute criminal cases in the western district. There are also only relatively a very few Federal investigators; and, therefore, if the States fail, for whatever reason, to take part in these investigations or to pursue them, they're just not going to be accomplished. Now, we've had three rounds of prosecutions in our district. The first one was in February 1982. At that time, we indicted 24 defendants in Mecklenburg County. Now, the vast majority of those defendants were indicted not only for food stamp fraud, but also for fraud relating to the aid to families with dependent children program.

What happened in these cases, they were recipient cases; and our prosecutions have broken down basically into two types of cases, recipient cases and trafficking cases. These 24 cases in Charlotte were all recipient cases; that is, people who obtained the stamps fraudulently in some way—by giving perhaps false statements to the department of social services about their income or about the number of people that lived in their household. In these 24 cases, the Federal court instituted fines in excess of $31,000 and restitution in excess of $28,000.

Later that year, we indicted 42 defendants in Buncombe County on recipient fraud. These 42 defendants were charged in a number of counts, totaling 176. And in those cases, the Federal courts imposed fines totaling $14,750 and over $50,000 in restitution. And just last week, an undercover operation surfaced in Asheville where 62 Buncombe County residents were indicted on food stamp fraud. Now, part of those were just recipient fraud that I've talked about earlier and part of them were trafficking violations. And trafficking violations, of course, just where people fraudulently obtained these food stamps and passed them on in a way not authorized by law. In Buncombe—which is an experience shared, as I understand, in operations in Greensboro and Winston-Salem by Ken and in Fayetteville by Sam—we found that you can buy anything with food stamps that you can buy with money. The investigators purchased LSD and marijuana, they purchased cars, they purchased guns, they purchased electronic equipment, alcoholic beverages. And point in fact, they were able—the Federal investigators in Asheville were able to place bets with the bookies using food stamps as their stake.

So, we've done this in three separate investigations, each of which we did with a relatively great number of indictments. In fact, the 62 indictments that were returned last week was the largest single roundup of food stamp fraud in North Carolina and, I understand, one of the largest in the Nation. And the reason we have done this is to try and create an impact in the district and to try and get a little bit of deterrent value from it. In fact, I think it's worked. After the indictments in Charlotte, the people at the social services department told me that they received many, many calls after the publicity resulting from those indictments of people saying things like, "Well, does this type of income count?" "Should I have reported this?" "What effect would this have on it?" So, a lot of people came in as a result of this and started changing statements that they had made and tried to rectify the situation.

There should be, in my opinion, a great emphasis on the criminal prosecutions; because criminal prosecutions are the manner and means of getting the attention of the people that are involved in this fraudulent activity. And I think it will be of great assistance. And it's absolutely essential that the State become involved in it.

In addition to those investigations, we've had a major vote fraud investigation in the western district; and one of the counties involved in that, of course, is Clay County. The FBI and the Federal grand jury is now investigating allegations that in Clay County the threat of the loss of food stamps was used as a manner and means of influencing people's votes. And this is a very important thing, of course. If this situation does exist, It's something that we are intending to do something about.

The whole thing is so pervasive, Senator, that when one of the Federal investigators who was involved in the undercover operation went to consummate one of the arrests last week, the fellow didn't know the investigator was coming there to arrest him—thought he was just coming to see him again—and the guy welcomed him with open arms, said, "Gee, I've got something for you." He takes him over to friends of his who have a stolen tax return check, a stolen Federal Treasury check, of in excess of $15,000. And they wanted this Federal agent, who really was there to arrest him, to begin with, to buy this and wanted to sell it to him for $16,000 in food stamps and $150 in cash. So, in addition to arresting him, we were able to indict four more people for possession and sale of a stolen Treasury check.

This trafficking fraud—I think the key to it, Senator, is to get at the grocery stores. Now, essentially, what happens is that one person will sell food stamps for maybe 25 cents on the dollar, who will in turn sell it to someone else for 50 cents on the dollar. But, ultimately, for the scheme to work, you've got to thave a cooperating grocery store that will take that food stamp that has been mishandled and will turn it in for a dollar on the dollar to the Department of Agriculture. Point in fact, these food—these grocery stores are acting as a laundering operation to food stamps, just as much as banks in various parts of Florida are acting as laundering agents for the drug dealers in Florida.

And I think it's very important that we get to the grocery stores and the grocery store owners that are accommodating this underground economy that exists. As I understand, there's an agreement between the Department of Agriculture and the Secret Service where the Secret Service is going to take over primary responsibility or perhaps exclusive responsibility for the investigation of criminal violations in regard to food stamp fraud, whereas the Department of Agriculture is going to continue the investigations in regard to the grocery stores and their misuse of the food stamps. I would hope that the Department of Agriculture will not handle these grocery stores simply as civil matters when they find in fact that they are laundering these, but that they will turn them over immediately either to the U.S. attorney's office or at least to the Secret Service so that these grocery store owners can be prosecuted criminally.

I've reviewed a number of the proposals that are in Congress, and I certainly cannot speak for the Department of Justice. However, it does seem to me that a number of the proposals addressed the key problem that I see, and that being the State involvement. Certainly, proposals involving block grants so that States would be actually responsible for how the money's spent would certainly go a great distance in alleviating my concerns that the States do not feel they have a vested interest in eliminating this fraud and abuse.

The CHAIRMAN. Mr. Brewer, you recited the number of indictments and so forth. You had 38 last week?

Mr. **Brewer**. No, sir, we had 62. Now, the 38 involved the number of trafficking cases; but in addition to those, we had additional ones of recipient fraud.

The **Chairman**. Now, how much help, if any, did you get from the I.G., Inspector General, investigators?

Mr. **Brewer**. Oh, tremendous. As a matter of fact, as I understand, Mr. Collins will be testifying before this committee later; and he is—he and another agent are the agents that conducted the undercover operation. The undercover operation had to surface prematurely, Senator, because of the agreement reached between the Department of Agriculture and the Secret Service. And it's a real crying shame that that happened, because they had invested the time and efforts necessary to obtain a degree of credibility within this underground enonomy. It was like picking cherries off of a tree, you know. And the investigation, because of this agreement, had to be closed; but the investigators tell me that it was as pervasive in the Buncombe County area as any place they've ever known and just as open as it could possibly be. So, we certainly plan to and intend to do more trafficking undercover investigations through the Secret Service as soon as the Presidential elections are over.

The **Chairman**. One of the investigators told me privately and not in any testimony—he said, "Senator, you can't imagine how deep-seated this corruption is." He related in some detail about how he put his men out on the street wearing leather jackets and blue jeans and tennis shoes and let the word go out that he was in the market for food stamps; and he said, "We had more customers within twenty-fours than we could handle."

So that indicates to me—and I'm going to put a question mark at the end of this—that we're just scratching the surface with the 62 indictments and so forth. If you had enough investigators, do you feel that there would be hundreds more?

Mr. **Brewer**. Yes, sir, Senator. There's very little question, based on what they tell me.

The **Chairman**. How are you going to try them in the courts, though? Are you going to clog up the court system?

Mr. **Brewer**. It has been our experience to date that practically all have pled guilty when charged. You know, we have 62 and we might be facing 62 trials; and if we face 62 trials, we will clog the court system up. But, Senator, that's what the courts are for, is to try the criminal conduct; and we propose to present it to the court for trial, if necessary.

The **Chairman**. Mr. Currin?

STATEMENT OF SAMUEL T. CURRIN, U.S. ATTORNEY FOR THE EASTERN DISTRICT OF NORTH CAROLINA, RALEIGH, NC

Mr. **Currin**. Well, I could certainly echo everything that Mr. Brewer has said. We have found here in the eastern district that the food stamp fraud encompasses three basic criminal schemes: Trafficking, discounting, and recipient fraud. North Carolina is receiving approximately $240 million a year in food stamps; and if you look at a figure of, say 10 percent fraud, which is probably law, that's $24 million a year that's being lost right here in North Carolina through this program. That's undoubtedly a minimum. Food stamp fraud is our largest problem so far as program integrity is concerned.

That's one of the reasons why our three offices have given food stamp fraud prosecution such a high priority, because there's just simply no other Federal program in North Carolina that is suffering the kind of losses that the food stamp program is. We initiated an undercover operation in Fayetteville several months ago and just recently concluded it. We convicted 33 individuals in the Fayetteville area on food stamp fraud charges. We did the operation in Fayetteville because that area gets more than $1 million a month in food stamps. We receive many complaints from Fayetteville. So, we know it's a bad area for food stamp fraud. But I would have to point out that we could go into any town, into any county, any crossroads in North Carolina and turn up precisely the same kind of fraud and lack of integrity in the program that we found in Fayetteville.

We sent two undercover agents down there who work for the USDA Inspector General's office; and, of course, as Mr. Brewer has pointed out, they soon learned that you can buy anything in the world with food stamps. The agents became known as "the food stamp men" in the Fayetteville area. They were undercover agents, but they were known in many of the neighborhoods down there as "the food stamp men." Their car and their van that they were operating in became so well known in the area that, when they would drive through a neighborhood, women would literally run out of their houses screaming, "Food stamp man! Food stamp man!" and shove money through their car windows in return for food stamps. It was just absolutely bizarre.

The CHAIRMAN. Now, the women were selling food stamps?

Mr. CURRIN. Selling and buying food stamps. You see some pictures on the wall over there, Senator, of cars. The undercover agents were able to go to virtually any car lot they could find and purchase an automobile with food stamps; and, of course, they would make the down payment on the car with food stamps and they would make subsequent installment payments with food stamps. You may ask, "Well, how does the bill of sale and the contract show that?" The car dealers would, on their bill of sale for the car, indicate the down payment was made in cash; but, actually, it was made in food stamps. So, we learned that this is a very good way that food stamps can be laundered.

The agents also purchased drugs, weapons, and alcohol with food stamps.

The CHAIRMAN. The press has been very much interested in the beer. You're not going to serve that?

Mr. CURRIN. No; we'll save it for evidence.

But, just for an example, here is some marijuana—just a small sampling of what was purchased. This bag was purchased for $400 in food stamps. This bag was purchased for about $300 in food stamps. This is taking place on the streets, all the time; and it's very prevalent. It's everywhere.

The CHAIRMAN. One of the investigators told me that massage parlors were taking food stamps.

Mr. CURRIN. Yes; that's true. Anything you can buy with money, you can buy with food stamps. There's simply too many food stamps out there on the street; and, of course, we've also learned that retail grocery stores—not all grocery stores, but the dishonest grocery stores—are discounting these stamps and redeeming them. That's a large aspect of the fraud. But the most distressing thing to me, Senator, and to all these prosecutors—and I've talked to other U.S. attorneys throughout the country—is that the problem is so great, it is beyond our capability to significantly combat it. Now, here in North Carolina, we have done more food stamp prosecutions in the last 2 years than have ever been done before; and I believe we're doing more prosecutions here in North Carolina than any other State.

The CHAIRMAN. But you're still just scratching the surface?

Mr. CURRIN. But we're just scratching the surface, we get calls; we get leads every day. I notify our agents; I call the Office of Inspector General; they often can't even go interview the people; we don't have the manpower. It's a bad feeling when you're a prosecutor or an agent and you are looking at perhaps $24 million in fraud a year or more, and you know that you don't have the resources to do anything about it. If we assigned every FBI agent in the State to investigate food stamp fraud, that would still only scratch the surface. There's got to be a partnership developed between the Federal Government and the State or the State needs to assume control and responsibility for the whole program. We need more investigation, more agents, and more prosecutions. And, of course, there's got to be much more control at the eligibility intake level; because too many unauthorized food stamps are getting into the system, and that's creating the fraud and the second-currency syndrome that we're dealing with. The eligibility intake area needs to be tightened up. There needs to be more interface using computer terminals with employment security commission records, other tax records, or Government assistance records so that you know when someone is applying for food stamps that what they're putting on their application is true and is accurate and is not false in any way.

So, I would recommend tightening up the program at the application level by having more interface with other Government programs, making greater use of computer information; because the trafficking, the buying of drugs and guns and all of this discounting that's going on in the grocery stores is going to continue as long as you've got unauthorized food stamps being distributed. Congress has simply got to address this problem. We prosecutors are doing the limit of what we can do. The agents are having to sacrifice other areas of investigation to do food stamp fraud, and we're going to continue to do as many prosecutions as we can. But, Senator, we're just at our limit; and the fraud, if anything, is getting worse.

The CHAIRMAN. What, if anything, has the attorney general's office of North Carolina said about this problem?

Mr. CURRIN. The attorney general's office for the State actually has no original jurisdiction over food stamp fraud in the State. The jurisdiction for prosecution of food stamp fraud at the State level lies with each local district attorney; and some of the district attorneys in North Carolina have been helpful, but by and large, the prosecution of food stamp fraud has had to rest with Federal prosecutors.

The CHAIRMAN. Well, how do we get to this problem, though, Mr. Currin? Do we change the law so that the North Carolina attorney general can have some jurisdiction? You've told me that you can't cope with it. I've been unable to get the votes to cope with it in the Senate. To the contrary, the editorial perception across this country—not just in North Carolina—is that anybody that tampers with the Food Stamp Program is just being hard hearted. Yet, we know by the most modest estimates, most conservative estimates, that the fraud is eating at least $1 billion of food stamps—at least $1 billion—across this country. Oh, I've had newspaper editors in this State to call for my defeat because I'm trying to hold up or reduce the amount of fraud.

Now, let me ask you, is organized crime into food stamps?

Mr. CURRIN. Yes. All types of criminals and criminal organizations are into it. It's so lucrative. We have found in North Carolina elements of organized crime dealing in food stamps.

I do hope, Senator, that some way can be found to either require or give an incentive for the States to pick up and carry some of the prosecutorial effort that we're having to carry by ourselves right now.

The CHAIRMAN. It's going to have to start with something like the block grant or making the States participate in the cost of it. But you try to handle that politically in the Congress, and they say, "Don't bother me. I don't want to risk support of the food stamp constituency," you know. So, it's a political problem. It's also a moral problem. We're going to bring this country down if we continue to encourage this kind of thing. We've got an attitude across this country, Mr. Currin, that, if I can gyp Uncle Sam, fine. This is growing and it'll bring the country down eventually.

Mr. CURRIN. When the undercover agents were in Fayetteville and when they went out on the street to deal with the people in food stamps, it was so easy that the agents felt like they ought to warn the people with whom they were dealing that the transactions were illegal. So, every time they would say, "Now, you know when you're selling me this car in food stamps, it's illegal" or "You know when you're buying these drugs from me, it's illegal." Every time they gave these warnings; and the people with whom they were dealing could have cared less. They said they knew it was illegal, but they didn't care and they would never get caught.

The CHAIRMAN. Mr. McAllister.

STATEMENT OF KENNETH W. McALLISTER, U.S. ATTORNEY FROM THE MIDDLE DISTRICT OF NORTH CAROLINA, GREENSBORO, NC

Mr. MCALLISTER. Senator, as you pointed out, the Federal nutrition programs serve a very worthy objective; and I think they represent the concern for and responsibility that America has historically shown for its citizens. The problem that those of us have who are given the responsibility to enforce the law and to help insure the integrity of the program face is that we know firsthand the abuses and we see the problems that occur in a worthy program.

Benjamin Franklin once said, if I might quote him, Senator, "Beware of little expenses; a small leak will sink a great ship." I think what we see is, we have a great ship of concern and responsibility that's embodied in the Federal Nutrition Program, yet it suffers from very severe leaks from fraud, waste, and abuse.

Perhaps what Charlie and Sam and I are saying is that this ship doesn't need more tar to patch the hull which is basically what law enforcement does; what we need is a better crafted hull to keep this ship afloat.

In the middle district of North Carolina, our emphasis has primarily been on trafficking, food stamp trafficking cases; and the first operation that we had came about not as a target for food stamp cases, but rather in December 1982, the North Carolina State Bureau of Investigation and police departments from Greensboro, High Point, Winston-Salem, and Asheboro instituted an operation against shoplifting that was pervasive throughout six counties in the State of North Carolina. Several businesses in these areas were losing lots of money. During the course of this investigation, investigators found that food stamps were being used to purchase these stolen goods. So, these local and State officers came to our office and to the U.S. Department of Agriculture for assistance. The U.S. Department of Agriculture joined in this effort in March 1983. As the result of numerous contacts over a 2-month period, we indicted individuals for felony violations of the Food Stamp Program, including exchanging food stamps for cash, alcohol, heroin, cocaine, marijuana, dilaudid, and other drugs, as well as for stolen property.

Food stamp fraud did give us one advantage, though, Mr. Chairman, in that there were a lot of career drug dealers that local and Federal authorities had not been able to touch; and the only way we were able to get into them was with their massive operation in food stamps. It did give us that benefit of being able to wipe out some of the major drug dealers in Winston-Salem, NC.

As the result of this simple little operation which involved only 2 months of Federal time and cost less than $10,000 of expense in Federal funds, over 100 people were charged in State court with the shoplifting-drug violations and 34 individuals were charged in Federal court with food stamp trafficking.

Again, as Charlie and Sam have told you, our effort was just representative; it was an exfoliation of the problem throughout this country. We did not, with that operation, wipe out food stamp trafficking in the middle district. We merely cut a think slice off the surface, a representative slice.

Food stamp trafficking has many forms; and one example that's not as egregious, but yet is commonly utilized, is where you have an individual who will walk into a retail store, Senator, he will have $80 in food stamps; he'll give that to the gentleman behind the cash register; that fellow will put $80 in food stamps in the cash register, give the person who had the stamps $20; and the clerk will pocket $60. There's no way that that transaction can ever be discovered without undercover assistance.

Food stamps are a new currency. They are just like cash and they are just as high in demand. In the middle district of North Carolina in 1982 and 1983, 52 food stamp violation cases were prosecuted, with 58 defendants; and 56 of the 58 were convicted. Law enforcement cannot, in and of itself, Senator, eradicate this problem or deal with the fraud. We can only hope that our efforts do have a deterrent effect. I think often in law enforcement we have the feeling that Congress has constructed a barn with no door and then law enforcement is given the responsibility of chasing all the escaping horses. Not only is that a very difficult task, but it's not a very worthy stewardship of the taxpayers' dollars and it also works to the severe detriment of the truly needy in this country to whom the dollars should be directed. We thank you very much for the opportunity to be with you, sir.

The CHAIRMAN. Thank you. I was just sitting here thinking. It's so hard to find a handle on this thing; but if we decide what the problem is, maybe that will give us an approach. And the problem lies with what we call "overissuances". For whatever reason—whether it be corruption or dishonesty or error or whatever—in North Carolina alone over 20 million dollars' worth of food stamps are issued improperly—overissued, $20 million.

Peter Grace, of the Grace Commission, was by the Agriculture Committee a couple of weeks ago; and he noted that the average taxpayer, as I recall, pays something like $2,200 a year in taxes. And if you figure that into North Carolina's overissuance of food stamps, which leads to this problem, you see, that you're talking about—that you said that you can't cope with because it's so enormous—you're talking about the total taxes paid by 9,000 average taxpayers. Maybe that offers a little bit different perspective, but I say again that you frighten me when you say that you can't cope with it. But you're telling the truth, because you don't have the personnel and you have a certain amount of disinterest by others. Yet, here we are wasting in North Carolina the total taxes paid for 9,000 average taxpayers and that's something to think about. Well, I thank you very much, gentlemen; and let's——

Mr. CURRIN. If I can just make one suggestion——

The CHAIRMAN. Sure.

Mr. CURRIN. When you talk about this situation in Congress with the other Senators, if you could suggest to them that they just take 5 minutes to call each U.S. attorney in their State, I believe they would change their tune—if they would just take the time to call the U.S. attorney in their respective States. And if they came back and were intellectually honest, I believe they'd have to admit that the program needs to be changed.

The CHAIRMAN. Well, you put a great condition on that, to require them to be "intellectually honest." That's passe. But I thank you very much. Your testimony will be very valuable, and we're going to call it to the attention of our colleagues and others. And, also, I will do precisely what you say; I will get out a "Dear Colleague" letter and say, "Do me a favor. Call one of your U.S. attorneys." That's a good suggestion.

Thank you very much.

Mr. BREWER. Thank you, Senator.

Mr. CURRIN. Thank you, Mr. Chairman.

Mr. MCALLISTER. Thank you.

The CHAIRMAN. Now then, we have a panel of county investigators—Al Espan, supervisor of fraud investigations with Mecklenburg County, Department of Social Services; Gerald York, fraud investigator for the Alamance County Department of Social Services; and Mrs. Debbie Ryals, supervisor, investigations, Durham County Department of Social Services.

I understand that Mr. Espan was not able to make it. So, we have Mr. York and Mrs. Ryals; and we welcome you. Mrs. Ryals? Pleased to meet you.

How do you do, sir?

STATEMENT OF GERALD YORK, FRAUD INVESTIGATOR, ALAMANCE COUNTY DEPARTMENT OF SOCIAL SERVICES, BURLINGTON, NC

Mr. YORK. Fine.

Senator Helms, I've studied the three Senate bills that were sent to me.[1] I found some good points and some bad points in each of them. I think that everyone who works with the program would like to see the program simplified to make it more efficient. There have been hundreds of changes in the Food Stamp Program since I've been working—I've been working in fraud about 6 years, and there have been hundreds and hundreds of changes in the program. But I don't think any of them have really been meaningful or any of them have helped reduce the amount of fraud in the program.

One of the weak points that I have seen is returning change to food stamp recipients on small purchases. This is an abuse that I get the most complaints about. This is not something—if we stop this, it would not really save us any money; but it would certainly improve the image of the program. I think we probably get, like I say, more complaints about that than anything else.

Another thing that we would like to see is the purchase requirement returned for participants who are not elderly or disabled. Our program increased approximately 36 percent in Alamance County when the purchase requirement was removed. So, we would like to see that reinstated, with the exception of the elderly, disabled, and people who are temporarily employed; and I personally feel those are the groups of the people that we should be trying to help.

The intercepting of Federal and State income tax refunds to repay fraud claims would be beneficial; however, I believe that the intercept should be expanded to include household errors, as that's the area that most of our overissuances fall in. Also, the major problem that we have, an individual applies for food stamps now and he has recently quit a job, that person is not eligible to participate in the program for 2 months—if he voluntarily quits. However, if a recipient quits a job during certification, that person can continue to receive food stamps. All of our food stamp workers and all of the fraud workers I've talked to do not agree with that. We think you're discriminating against the applicant, and we do not feel that's fair.

Also, we would like to see the voluntary-quit penalty made longer; we feel that would encourage people who are working—it would encourage them to remain employed. We have many people who have employment and they will quit that employment just to improve their benefits. We feel like it would be an incentive if we would do away with that.

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[1] See p. 146 for the prepared statement of Mr. York.

Also, another suggestion that I would like to make is limiting the maximum amount that any household can receive in our county now, we have a 12-person household that is receiving 558 dollars' worth of food stamps per month. This family has received $23,000 in food stamps in the past 4 years. This is a man, his wife, and 10 children. Each time this couple has a child, we simply give them more food stamps or more benefits. The wife recently called her worker and said that she had been offered a job, but didn't feel she would take it because it would reduce her food stamps. Now, I personally don't feel that we should be rewarding these people for having more babies. This is also where a lot of the fraud comes in. A person receiving 558 dollars' worth of food stamps a month, in my opinion, they're not going to buy that much food; and they're tempted with that large amount of stamps to sell the stamps or to buy ineligible items with them.

Another concept that we would like for you to look at is limiting the number of months or years that a person can participate in the program. We have people in Alamance County who have been on food stamps continuously since the program started. We're talking able-bodied people. We don't have any problem again with the elderly and disabled receiving these stamps for 20 years or whatever the case may be. But we do feel like that the able-bodied people who refuse to work should be limited in the number of months or years they can participate, just as unemployment insurance is limited to a certain amount of time.

Also, the most common abuses that we see in our county are the buying and selling of stamps and also purchasing ineligible items with these stamps. I don't think that—that's not an Alamance County problem; that's a national problem. That's the two abuses that are, I guess, the most popular nationwide. We had a lady a couple of years ago who went into the grocery store, bought 40 dollars' worth of weiners and buns, took them to a wrestling match and sold them for over $100. Now, that's good for her, I guess; but there's no State statute, there's nothing we can do to that lady. We called her in and counseled with her, but there's really no law—there's nothing for us to charge her with. We also have a lady in one of our housing projects who buys sodas and snack foods with her food stamps and then takes them to her house and resells them for a profit. Again, there is no State statute that addresses that problem; there's nothing we can do about it.

Fraud is a common problem, and we've all heard estimates from 1 percent to 40 percent. I personally believe it's probably in the range of 20 to 30 percent. I think we all recognize that there is a problem, but many of the administrators at the Federal, State, and local levels will not admit that it's a problem. I think that is our greatest problem in the fraud business. Until these people admit that it is a problem, then we're not going to have the staff to combat it; and we can't make a dent in it without proper staffing. I've talked to investigators from probably 15, 20 States and most of the counties in North Carolina; and I find that we're all in that same situation, there's not enough staff. The U.S. attorneys addressed that. There's not enough staff at any level to combat the problem.

In North Carolina, we have approximately 200,000 food stamp households or 550,000 people receiving food stamps and approximately 66,000 AFDC cases. At this time, the State only employs one full-time fraud coordinator. Approximately 50 of the counties employ one or more fraud workers.

The CHAIRMAN. How many do you have?

Mr. YORK. We have two in our county. And that's not enough. We're from a small county. We have 2,200 food stamp households and approximately 750 AFDC households. In my opinion, even a county our size, we need five investigators. We're backlogged probably 6 or 7 months constantly, and a lot of that backlog, unfortunately, is due now to reports. We're having to generate more and more reports. When I started in fraud in 1978, it was a new program—very few reports to do. I was investigating all the time and prosecuting, but now the Federal people have gotten more involved and the State has gotten more involved, there are more reports. So, I'm probably spending 50 percent of my time now generating reports and doing paperwork and trying to collect the overissuances that we have, rather than investigative.

The CHAIRMAN. You say the State has one fraud coordinator?

Mr. YORK. Yes, sir.

The CHAIRMAN. South Carolina has more than that. I seem to remember there were six?

Mr. YORK. I'm not sure. But I do think we need a greater commitment at all levels of government if we're going to make a dent in this. I don't think there's any way to eliminate fraud unless the Food Stamp Program itself is changed. My personal opinion is that, again, the program should be limited to the elderly, the disabled, and temporarily unemployed. As long as we support these people who will not support themselves, they're not going to go to work if we don't give them some incentives to go to work. I think the Federal Government is rewarding people to be lazy now. The AFDC programs, the HUD programs—if a person does not do anything, they can get everything from the Government; and a person who works and makes minimum wage actually comes out worse than these people who are on benefits. So, there's really no incentive for a person to try to work.

I personally do not feel any obligation to support people who are too lazy to work and that's my feeling on it.

The CHAIRMAN. I believe that's the general feeling of the American people, and one of these days it's going to result in a cataclysmic reaction. Everywhere I go all over the country, this sort of thing that you're discussing is brought up by people in all walks of life; and they are enduring it now, but there's going to be a limit to it.

Mr. YORK. I think the Food Stamp Program was started with good intentions, and probably——

The CHAIRMAN. All of them are.

Mr. YORK [continuing]. Seventy percent of the people that are being helped are entitled—under Federal regulations, they're entitled to receive it; and maybe that 20 to 30 percent that are cheating makes those 70 percent look bad. I don't know. Maybe that's not fair to the 70 percent. And I certainly don't advocate doing away with the Food Stamp Program in its entirety, but I think it does need to be some drastic changes made to the program itself before we can do anything with fraud.

The CHAIRMAN. Do you think block granting it would do any good?

Mr. YORK. I think the block grant has good points and bad points, but what I'm afraid of—in North Carolina, we've got 100 counties; and most of our programs are county administered. And we've got 100 counties doing 100 different things, and I'm afraid that if the block grant came into effect that we'd have 50 States with 50 sets of regulations. I could see a lot of problems and a lot of discrimination with that, and we'd have people shopping. We have clients now who shop for AFDC. In New York, you might get $400 AFDC, where in North Carolina you get $200. We actually have clients who State hop to get the maximum benefits. So, I can see the block grant—I'm afraid it would do that, we would have people who would be jumping to the States with the most food stamp benefits.

The CHAIRMAN. Suppose you could puch a button and get any reform program that you had in mind through the Congress of the United States. What would be the first thing that you would do?

Mr. YORK. Well, the Food Stamp Program would be the first program I would change.

The CHAIRMAN. I'm talking about the Food Stamp Program.

Mr. YORK. OK. The thing that I would do—as I said before, I would limit it to people over 60, people who are disabled, and poeple who are temporarily unemployed. That would be the first thing I would do to the program.

The CHAIRMAN. Mr. York, thank you very much. Is it Mrs. Ryals?

STATEMENT OF DEBBIE RYALS, SUPERVISOR, INVESTIGATIONS, DURHAM COUNTY DEPARTMENT OF SOCIAL SERVICES, DURHAM, NC

Mrs. RYALS. That's right.

The CHAIRMAN. Thank you very much for coming.

Mrs. RYALS. Thank you for asking me.[1] First, I'd like to say that I really believe in the Food Stamp Program. I think that there are a lot of people throughout our Nation that depend upon the program to help them meet the basic food need for their family. Therefore, I strongly support the whole concept of a food assistance program. Over the last 12 years, I've had an opportunity to view the program from several different angles: First, as an eligibility line worker in the applications division, receiving applications for AFDC and food stamps; second, as a supervisor of a redetermination unit where the caseworkers carried AFDC and food stamp caseloads; third, as a volunteer working with Meals on Wheels and doing work with my church and my civic club, helping needy people; fourth, as a friend and relative of people that have had to turn to the Food Stamp Program during a time of crisis in their life; and fifth, as a supervisor of welfare fraud investigations which I currently am doing.

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[1] See p. 149 for the prepared statement of Mrs. Ryals.

From each of the levels, I've seen both the good and the bad of the Food Stamp Program—the good, when people are able to go from not having enough food on their table, not knowing where their next meal is coming from, to the safety and security that the Food Stamp Program allows and where they know that they're going to get another meal and they know that they're going to be able to purchase additional food; the bad, when people who need more don't get enough, and also the bad that's caused by errors that cause overpayments and by people who are not eligible who decide to lie and cheat in order to gain benefits. It's from the last angle that I really speak to you today.

In my opinion, the Federal Government has done a lot in recent years to both strengthen and tighten the Food Stamp Program. In 1983, we implemented programs that required more verification before certifying households; and we were able to strengthen the recovery of moneys lost through fraud and overpayments. I think all of these were good and it's been a lot of help to me as an investigator to have additional ways to go out here and collect money that has been lost through fraud and abuse. The State of North Carolina Food Stamp Branch has also taken some steps to help investigators. First of all, they're asking investigators to serve on committees who are rewriting eligibility manuals and policy manuals. Therefore, we have some input before the policies ever get to the eligibility worker. We've been asked to serve on corrective action committees which is another good thing that's happened, I think. The State also appointed a special investigations committee, something that Gerald and I had advocated several years ago. They have appointed that committee. We just finished writing a handbook that will go to all the investigators in the 100 counties, wherever there is an investigator; and I think that that will help a lot.

Gerald mentioned that they have appointed a fraud coordinator. Yes; there's only one coordinator; but I think that that's at least a beginning toward achieving a situation where we have some consistency and we have some support and guidance. I hope, as do other investigators across the State, that the State will appoint additional coordinators and that we'll achieve a situation where eventually we'll have field advisers to work with fraud investigators; and I think that time is coming. And appointing a fraud coordinator has certainly been a first step in that.

I think the State has also taken the lead in moving investigations out of the program area. The fraud coordinator for the State works directly out of the director's office, rather than being positioned under a program head. In my mind, I think that that is the way to go. In North Carolina now, there are about 54 counties that have fraud investigating units. In each of these counties, you could visit each one of them and see a different situation going on. Some of them report directly to the agency director; some, to division heads. In one or two counties, we have the investigators reporting to district attorneys' offices; we have investigators reporting to line supervisors, and still others that have to wear two hats: They have to be the eligibility worker and carry a caseload and, at the same time, turn around and investigate some of those same people that they've worked with.

In my opinion, it's inappropriate for investigators to be assigned to income maintenance. Most of an investigator's work is in the area of income maintenance; therefore, it seems inappropriate to me for them to be supervised by the very people whose work they have to evaluate every day. I think in my mind, too, this leaves a question in the whole area of accountability, that we could get around by having investigators be an autonomous unit, very much similar to the Office of Inspector General at the Federal level. I think that some guidance from this committee, from your committee, would help, or some legislative changes would help, in mandating staffing patterns for investigators, or at least recommending, where these investigators should be housed.

It's amazing to me that in North Carolina there are a lot of counties that still don't have investigative units. The Federal Government is almost willing to pay the total cost of food stamp fraud investigations and—well, just food stamp investigations. In my county during one quarter last year, we actually had a net gain for the county of $5,511 during one quarter through the incentives offered by the Federal Government and the 75-percent funding. So, therefore, it's very cost effective to hire investigators to take care of the claims that occur because of errors and because of fraud.

As an investigator, it would greatly help my work to have even more options in collecting overpayments. To be able to garnish wages, to do tax refund offsets for State and Federal taxes and offsets of unemployment compensations would give us more tools to collect overpayments once fraud has been committed. I feel very strongly that those of us that are concerned about reducing Federal spending, having more accountability in our programs and reducing fraud wastes and abuse ought to turn all of our time and our attention into preventive measures. One measure that I would recommend would be to increase our computer match capability, allow us to do bank matches, tax matches so that we can learn about dividends and interest income; second, to include specific questions on applications and change forms for food stamps, asking specifically whether or not a person is married—in other words, trying to impress upon our clients that there is a need to report their marital status and any changes in that status; third, I would recommend limiting the number of months a person can be certified if their bills exceed their income; fourth, I think that we need to redefine the household concept and allow for only one card per household, unless there's an elderly or disabled member in the household or in extreme situations; fifth, fund picture ID's for all food stamp recipients. I think that there is a lot of money lost through theft and fraud that could be avoided if we had picture ID's for food stamp recipients. Sixth, I would recommend allowing waivers of 10-day adverse action notices. When people come in and report that—or ask that they no longer get stamps—in other words, want to request termination or when it's verified that the person's no longer eligible. This 10-day notice requirement sometimes means that the person is going to be overissued. And I think if we could be allowed to have waivers in that area that that would help. Seventh, I would recommend keeping to a minimum the number of massive changes made to the program. Right now, we're still suffering a lot of frequent program changes. Normally, these require mass changes. Eligibility workers are put in a situation where they've got to hurry through their work in order to implement all these changes; and when we do that, I think we just leave ourselves more vulnerable to fraud, waste, and abuse. So, reducing the changes would have to help, I would think.

And, eighth, I would recommend implementing penalties similar to those in AFDC for people that don't report changes timely. Perhaps they haven't committed fraud, but they haven't reported their changes timely. In my—it's my personal belief that an investigation for suspected fraud or a collection action for recouping moneys should only be necessary when all possible defenses to prevent overissuances have not been successful. Therefore, someone has been successful in committing fraud, even though we have the best defenses imaginable. Any time that fraud is committed, I firmly believe that we should take every possible action to see that the money is repaid and that the crime is punished. I think a good investigative program would take advantage of all the things that the Federal Government allows us to do in the Food Stamp Program: Administrative hearings, prosecutions, civil court, allotment reductions—anything and everything—to try and both punish the occurrence and get the money back. I think that—that those that don't like to talk about fraud and abuse and, rather, like to talk more about the program itself and how wonderful it is—I would agree with; it is a wonderful program. But I would also agree that we need to have a strong fraud prevention, detection, and investigation program. In effect, the people that commit fraud are stealing food off the tables of the honest people who really need the help. And it's for those people that I work in this area at all.

I think that some of the things that we have been doing in North Carolina to inititate computer matches, rewriting policy manuals and procedural manuals—all of those things will help to reduce errors, for certain; and I think that these will help also to reduce fraud. In our county, we initiated a "project prevent" which was really just a catchy phrase for—at the close of each investigation, the investigator fills out a separate summary—more or less brainstorming. You know, if anything could have been done to prevent this overpayment, what would it have been? We're finding in a lot of cases there was nothing humanly possible we could have done; the people made up their mind in advance they were going to commit fraud and, outside of locking the doors to them, there was nothing we could do. But, also, in a lot of cases, we've found that there are things internally, things like computer matches that I've already mentioned, and better training and interviewing skills of lineworkers would certainly help a lot in preventing the fraud and abuse.

I think that lineworkers and supervisors ought to be given every possible tool to accomplish the task that they've been given. Their caseloads are too high and they're unmanageable. There's no way—in the old days before we had verifications and food stamps was more or less a declaration program, I think they could handle the caseloads. But now, the more verification requirements that are put on them, the less number of cases that they can actually handle and still do what we want them to do by preventing fraud and detecting it as soon as possible and using good interviewing skills and making all those verifications.

So, I think that, if we could figure out a way to reduce their caseloads so that they can continue to deliver quality services, that that would help as far as preventing fraud and errors. I think we need Federal leadership in developing standard training courses for investigators—not "investigators"—for eligibility workers. I think that if we had a package of training materials that every new worker would have to go through—more or less a course—before they were put on the line, that this would help a lot. In my opinion, the training currently in place for eligibility workers is not adequate. At best, it's poor and it's due—a lot of this is due to time constraints, staff shortages, any number of reasons for not having adequate training. But the fact remains that it's not adequate.

I think the workers need not only to know the policies and how to implement them, but they also need to know good interviewing skills; they need to know the art of confrontation; and they need to be made aware that every error that they make, every error that the worker makes, that their client, the person that they're trying to help, is going to be held financially responsible for that error. Although I understand the purpose behind collecting overissuances, making the client repay overissuances that were the fault of the agency, I can't agree with it. I think it's wrong. I think that eventually we need to reach the point where workers and supervisors are held responsible for those errors, and I think that we would then see a decline in the error rate. That's an awful thing to say, you know; because I'm one of those people that might have to pay. But I think that we've reached the point where that needs to happen.

In closing, I would just say that I'm against continued program changes, massive changes, that are aimed at reducing cost. I think that we need to focus our time, our attention and our resources on preventing the errors and preventing the overpayments; and then we'd have fewer people out there on the streets that are able to purchase these things that Mr. Currin showed us this morning. I think the key to reducing errors is a well-trained eligibility worker. They're our greatest resource in the Food Stamp Program. We need to support them; we need to applaud them; and we need to make sure they've got everything they need in order to do their job and to make sure that only those people that really need assistance, get assistance.

That's really the end of my remarks. I did—along with my written testimony, I included some information from our county. We have five investigators in Durham County, two clerical support people and myself, as a supervisor. Only two of these investigators are dedicated to the Food Stamp Program, but we're, I think, a successful program; I think we're doing a lot. We do prosecute. We don't hesitate to prosecute. We also do everything possible to collect the money. In fiscal year 1980, we collected less than $10,000 in food stamp overissuances. Fiscal year 1983, we collected over $45,000; and of that, over $21,000 was returned to my county through incentive funds. This year our goal is to collect in excess of $62,000, and I think that we will meet it. We are focusing a lot of our time and attention on food stamps, thanks to the Federal initiatives in the area of reimbursements and incentives.

The CHAIRMAN. Very thoughtful testimony. I'm learning, getting some ideas. I've been nodding to Mr. Boney here throughout the morning. This recovery of overissuances, do you know what the General Accounting Office says the success rate is as of now?

Mrs. RYALS. No, sir.

The CHAIRMAN. One percent. One percent.

I sense the same frustration I know that you folks and others, your counterparts around the country. Everybody is talking about the food stamp problem, but not really a whole lot's being done about it in terms of giving you the authority and personnel and facilities to do what has to be done. My hat's off to you, because it's a tough thing. Any time you have the trough, you're going to have plenty of customers and people moving in to take advantage of it. That's a human frailty, unfortunately.

Mrs. RYALS. That's right.

The CHAIRMAN. And it's not fair to the American taxpayers for nothing to be done. Tom, I want to make a note to zero in on this business of counties that don't even care enough to have one investigator. A lot of people connected with this program just don't care. I'm going to surprise you and maybe shock you, but I've got irrefutable information that a certain food stamp official in this State, who may be known to you, called around to the bosses of people who wanted to come and testify and applied intimidation. Now, I'm not just whistling Dixie on that. This is how far it's gone. This fellow doesn't want to do anything about cleaning up the Food Stamp Program; and if he hears about what I'm saying, I want him to know that we're going to call his bluff one way or another, because I'm not going to have that sort of thing. But there are witnesses, in addition to you and others, who would have been here this morning, save for the activities of this person. Now, if he wants to take me on, fine; and we will find out which side the taxpayers of this country are on. I think they'll be on mine. But I'm not going to knuckle under to that kind of intimidation, and I'm sorry that the potential witnesses were intimidated by him. But we will settle that thing.

One more question that I had, Mr. York, I want to take note of the fact that you have been recognized as a leader in obtaining recovery of over issued food stamp benefits. You have been working at this thing, and I want to salute you. I know it's the kind of work you have to roll up your sleeves and it's not particularly pleasant, but you're a good citizen and I want you to know I admire you.

And, young lady, you're a most impressive witness; and I appreciate your suggestions and I guarantee you that the testimony of both of you will be examined carefully by the committee and the folks at the USDA and others. Anything else you would have to say?

Mrs. RYALS. If I could say one thing——

The CHAIRMAN. Sure.

Mrs. RYALS. I think that your comment about a lot of people just not caring enough to hire investigators is correct in some instances; but then, too, I've been a supervisor and I know that you're sitting there, you know, with all these changes and you've got only a limited number of workers and high caseloads and, on the other hand, you've got an investigator who you want to hire, perhaps, and you really want to do something about fraud, but it's a juggling act, you know. And we've always—in social services, all of us have been drilled to put people on the frontline first, you know.

The **CHAIRMAN**. But the point is, you ought to have both.

Mrs. **RYALS**. I agree with you. That's true.

The **CHAIRMAN**. And it is a violation of the trust with the taxpayers of this country that you don't have both, because what you're doing is shoveling the money out and inviting fraud and corruption. I've got to tell you, I don't blame some of the people who take advantage of the program; because we've sent them an engraved invitation, "come on in and take on Uncle Sam's wallet." The unfortunate part is that it's the taxpayers' wallet. But I admire both of you, and I thank you for coming.

Mrs. **RYALS**. Thank you.

The **CHAIRMAN**. Now, Mr. Boney, let's see. That takes us down to J.C. Cole. He's a former postal inspector. If he will, come forward.

Mr. **COLE**. How are you this morning, sir?

The **CHAIRMAN**. Appreciate you coming.

Mr. **COLE**. Thank you.

The **CHAIRMAN**. I've got to tell you that I spent a great deal of time 2 weeks ago with Rosey Greer, and you're built sort of like Rosey. Rosey was up to help us with the prayer amendment along with Meadowlark Lemon and Demond Wilson. I enjoyed those fellows. Meadowlark was born in Wilmington, NC.

Mr. **COLE**. I didn't know that.

The **CHAIRMAN**. I didn't know it either, and he was offended that I didn't know it. Demond is just the greatest guy. But Meadowlark was saying that he was a physical comedian, and Demond, he said, is a standup comedian. He looked over there at Roosevelt Greer and he said, "He's anything he wants to be."

We're glad to have you, and I appreciate you coming.

Mr. **COLE**. Well, I was a football player; but I wasn't quite as good as Rosey.

The **CHAIRMAN**. Oh, I don't know.

STATEMENT OF J. C. COLE, PRINCIPAL, COLE INVESTIGATIVE SERVICES, ELIZABETH CITY, NC

Mr. **COLE**. Well, I guess I'm here to shed a little different perspective on the Food Stamp Program. All my contact with the program came in New York where I worked as a postal inspector. I'm back here in North Carolina which is my home State now. I've set up my agency as a private investigator, and I feel that my services could be of use to some of the counties in the northeastern part of the State. Due to my extensive background in conducting food stamp investigations, I sympathize with the U.S. attorneys that were here. I understand the problems that they would have, and I also sympathize with the Federal, State, and local agents in—you know, its a very hard task, you know, when you get involved in a program such as the Food Stamp Program and you see the waste, fraud, and abuse that is, in my opinion, that is allowed to continue, for one reason or another—you know, lack of staff, whether it's at the Federal, State, or local level. I was very fortunate while I was in New York in that they allowed me to work for a couple of years full time in the Food Stamp Program. I worked with Charles Allen who was the special agent from the U.S. Department of Agriculture, and he headed up the grand jury investigation in the eastern district there. My wife, who's also—was an assistant U.S. attorney, she's here today—in the eastern district, but she did not get the opportunity to prosecute any of the cases that we brought there in that area.

In my statement, I'd like to sort of—you might ask what does a postal inspector have to do with food stamps and what would give postal inspectors investigative responsibilities in a program administered and controlled by the U.S. Department of Agriculture. To answer that, first, we would have to look at how the program is administered. The funds for the program came from the Federal and State governments; and in New York, it is administered locally by the city's human resources administration. Food stamps are generated by vouchers called authorization to purchase cards. And hereafter, I'll just refer to them as ATP cards.

These ATP cards are sent to the individual recipient via the U.S. mail. When these same ATP cards are diverted from the mailstream by fraudulent means before receipt by the addressee, this violation falls within the jurisdiction of the U.S. Postal Service. Therefore, these investigations are jointly investigated by both the U.S. Department of Agriculture and their special agents and the U.S. Postal Service postal inspectors, with the cooperation of the local investigators. The information that I will present will pertain to examples of diversion of ATP cards from the mailstream.

Let us first examine whether thefts from the mail can have a significant impact on the Food Stamp Program. Now, in the testimony that I've heard today, most of it seems to be somewhat recipient oriented. The investigations that I did in New York, along with other agents and postal inspectors, were—was targeted toward the organized trafficking of the ATP cards. And we came across some amazing results there.

In Brooklyn, NY, during 1980, approximately 14 letter carriers were arrested for ATP-related thefts. One carrier was arrested with approximately 60 ATP cards in his possession. And a little later into my presentation, I would go into the relationship between the ATP cards and the food stamp coupons. Another had 25—no, two more who were working together were responsible for the theft of approximately 100 ATP cards at one time, another had 25. These 14 carriers, at the time of their arrests, were charged with the theft of approximately 355 ATP cards. If we were to use the sum of $50 as the average amount of a single ATP card, we wold have a total of $17,750. Some of these carriers admitted stealing ATP cards during—several times during the mailing period each month. Some stole to support drug and gambling habits, others stole because the cards were easy to fence and it was easy money with little risk attached. Some of the methods used to make these arrests included undercover buys, deliberately mixing up ATP cards for different routes—and that would be something that would have to involve the Postal Service. It's an investigative technique that I wouldn't care to go too much into detail at this point. But we found it to be very effective. We also marked ATP cards; and what we did—and we had the complete cooperation of the Human Resources Administration there. We—before the cards were placed in the mail, we marked them with ink or powder that was not readily noticeable by the human eye; and we'd let them go through the total system. And when they go back to the bank, we'd go in with the black light and we'd recover them.

There, you get a chance to see a complete pattern of how the cards have traveled through the system. We also marked—did mass marking in selected postal districts where we allowed these same ATP cards to go through the system. Again, that way, you get a chance to sort of see where you have your recipient problem, as opposed to your problem where the cards are being stolen in mass before they reach the recipients. At this point, let's look at the fraud in the total program as it relates to the above testing and marking procedure and trace an ATP card fraudulently diverted from its rightful recipient. Let's take one of the 14 carriers, for example. He sells a card valued at approximately $100 to a fence, say a meat market, for approximately $25. The way the program was administered there in New York, the food stamp coupons—when the recipient received the ATP card, they had to go to a check casher to redeem the coupon. The recipient would give the ATP card to the check casher, the card would have a printed amount on it, and the check casher, in turn, would give the recipient whatever the amount of funds that was listed on the card.

Therefore, when the fence gives the ATP card to the check—well, what would happen, after the—say the carrier would take the ATP card to the fence. The fence would give the carrier, say, $25 for the card. The check casher and—normally, runs a retail market, usually a grocery store or meat market, would work in cooperation. The fence would then take it to the check casher, where the check casher would give the retail guy the total—say $100 for the cost of the ATP card, given the food stamps. The meat market then gives the check casher $25 as his share in the profits, and then he deposits the $100 worth of food stamp coupons in his bank account, as if a customer legitimately used these coupons to purchase meat, and withdraws $100 in cash. At this point, he has made a profit of $50. And this modus operandi could take place in any number of ways: Robbery of the postal employee, the recipient selling his or her card and reporting it stolen, internal depredation within administering agencies. We found that you had depredation within the local department there, where their employees would sometimes steal the ATP cards and they also utilized the services of a contract mailer in the area, taking the cards from the Department of Social Services to the post office for mailing, and you had depredation at that point.

The ATP cards stolen by the 14 carriers represent the value of their thefts on the 1 day they were caught and arrested. From those $17,750 worth of ATP cards stolen, a fence would realize, if all of the carriers that stole on this one particular day took these same cards to the same check casher, they would realize a profit—the check casher alone would realize a profit of $8,875.

Our investigations disclosed heavy organized crime involvement. One meat market was controlled by the Gambino family, Ranbar

Meat Markets; and they diverted approximately $1 million per year for a 3-year period. The case that was built up against them, the company itself was prosecuted in the Federal district court in New York; and they pled guilty and they were fined. I don't remember—I don't have notes. I don't remember what the fines and the sentences were. The secretary-treasurer was sentenced to a prison term, and the company itself was fined a penalty.

There was also the Gallino brothers in Brooklyn which received notoriety, I think, back in 1981 when they were the subject of a 20/20 report about their activities. They—there were about, I think, three brothers who had about four or five meat markets in Brooklyn alone; and they worked with any number of check cashers in that area. And they would get ATP cards and take them to this check casher. And they would come from individual recipients, they would come from postal employees, they would come from the contract employees—any and all sources.

Examination of the ATP cards during these investigations disclosed that it was easy to fence ATP cards and obtain in any manner. ATP cards stolen during armed robberies of mail carriers or ATP cards forcibly removed from mail receptacles—that is, mail storage boxes and house letter boxes—are just some examples of how the ATP cards came in the possession of these meat markets or retailers. There were ATP cards recovered from the banks which had passed through the check cashers in Brooklyn, although the cards themselves were addressed to recipients in all five boroughs. What had happened, that the knowledge of these fences had become so well known that you would get people traveling from all five boroughs in the city to come to these particular places. And, in addition to that, you know, we would find when we examined the ATP cards deposited by a particular check casher that, in some instances, the check casher on a given day would not have any ATP cards in his deposits from his immediate neighborhood or his immediate postal district.

Many of the ATP cards were forged and others contained no signature—just the stamp of the check casher. I might add that many of these cards were in mint condition. And what I mean by that—normally, when you look at an ATP card or when it's received by the recipient, the recipient in some manner or some way would handle the card and you would see evidence of it by smudges or, you know, there would be sweat from the hand and it would look—it would appear as though it had been handled. Where we found these ATP cards in the check cashers, you would find stacks of them—sometimes 2 and 3 inches thick—where they were pretty and clean and that's where we referred to them as mint condition, where that would indicate that it never was received by the—by the recipient.

We also found, in examining some of the larger stores that received the coupons from these same ATP cards, that they would be in mint condition, where the meat markets would take large amounts of ATP cards and the coupons that were generated as the result of these coupons [sic] would be given en masse to the meat market or he would take them to a larger supermarket and exchange them for cash. And the supermarket would there have this whole block of ATP cards—sometimes total boxes of food stamp coupons—in their deposits going to the bank.

In conclusion, the diversion of funds from the Food Stamp Program is significant—or I found it at that period of time. And I worked in the Food Stamp Program from, I guess, 1979 through 1981—was significant and organized. It is easy money, and the program lacks the necessary control—lacks the controls necessary to discourage abuse by recipients, postal employees, retail markets, check casher, and organized crime persons. Again, I'd like—I agree with a number of the people who have testified about the benefits of the program; but the way that it is administered, a lot of times, I think, leads to some of these abuses. And, you know, it has to be tightened up one way or another. And I think the attention that you are bringing to this program is of great benefit. I always felt, you know, if we could get around the political differences of a lot of it and just look at the merits of the total program, that it would be—you know, that, you know, we could possibly work something out where, you know, the prosecutors and the agency heads would be allowed to hire more staff to concentrate on these abuses within this program.

The CHAIRMAN. It's a hydroheaded problem now. Your testimony is excellent. How long have you been in Elizabeth City, back in Elizabeth City?

Mr. COLE. I moved back to Elizabeth City in July. I moved last year.

The CHAIRMAN. And your business is the Cole Investigative Services?

Mr. COLE. And I might add that, for counties in the northeastern part of North Carolina that do not have the benefit of investigators, that I would—you know, that I would be glad—I would gladly contract my services out to them. I think my background is somewhat extensive, and I could probably share—even at that, though, I would even be willing to volunteer in some instances to talk to the people and review their programs with them to see where there are problems that could possibly be tightened up to help them control the ATP cards and the food stamps that are being wrongfully diverted from the system.

The CHAIRMAN. We've all been talking about the enormity of the problem and some acknowledgment that it's doubtful that we can get it under control. I think it must be brought under control. Let me ask you this: Suppose we had an identification card with a picture and signature and so forth. Would that help any?

Mr. COLE. That would help, I think, as far as deterring the individual recipient from, you know, trying to commit a fraudulent act involving either the ATP card or the coupons themselves. Those instances where you have fencing activities, I don't think it's going to be of much benefit.

The CHAIRMAN. None.

Mr. COLE. Here in North Carolina, I'm not too sure how the program's administered. I don't know whether—I think the ATP cards go out through the mails, but I don't know how the food stamp coupons are issued, what agency or—you know, where you have to go to obtain them. But, certainly, the photo ID would deter, I think—it would help a lot in detering individual fraud by the recipient.

Again, I don't know what the nature of the problem is here in North Carolina. It seems to be tremendous from the testimony, and it seems to be not even that much different from anywhere else.

The **CHAIRMAN**. Keep your mind on it and let us hear from you.

Mr. **COLE**. I certainly will.

The **CHAIRMAN**. We want to consult with you.

Mr. **COLE**. Thank you.

The **CHAIRMAN**. A very impressive witness, thank you very much. Did you say your wife was here?

Mr. **COLE**. Yes; she is—Janice. She was an assistant in the eastern district in Brooklyn.

The **CHAIRMAN**. Nice to see you. Glad to have you here.

Now, we have a panel of Federal investigators—Richard Benton, Supervisory Special Agent of the Office of the Inspector General; Richard Alexander, Supervisory Auditor, Office of the Inspector General; and Jay Bee Collins, Special Agent, Office of the Inspector General. It's good to see all three of you.

Let's see, we've got Mr. Benton listed here first.

STATEMENT OF RICHARD BENTON, SUPERVISORY SPECIAL AGENT, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, RALEIGH, NC

Mr. **BENTON**. Well, I had planned to say everything that all these people that came before me said. So, there's really no point in my repeating all of it. I would—I would give you a few statistics on what we here in North Carolina have done. I went back, when I found out I was going to be asked to appear on this thing, and looked up to see what we had done for the last—since January 1982. Now, keeping in mind that I had five agents part of the time and four agents part of the time; we have issued 318 food stamp cases for investigation. Some of them are still pending that haven't been completed, but we've already indicted 179 people as a result of those cases. The ratio of convictions, as compared to indictments, is phenomenal. We have a 98-percent overall conviction rate for the cases that we bring and pursue through the courts. We—and, of course, you've got to keep in mind, too, that in addition to the food stamp cases that we've investigated, we've had the responsibility in some 30 other programs to try to investigate all the things that came up in those programs at the same time.

And, of course, you heard all of the U.S. attorneys this morning testify that we're short of help. I certainly wouldn't deny that. We are unable to indict all of the things that we're asked to investigate. Of course, we have to set certain priorities, too. A lot of times, we have to choose between accepting food stamp cases to investigate or to go out here and investigate where somebody has disposed of $250,000 worth of security property from the Farmer's Home Administration or something of that kind. So, it does give us a problem in trying to get around to investigating all the things that we're asked to investigate; and Mr. Brewer—he wanted us to continue the investigation in Buncombe County recently. And we hated like everything to tell him that we couldn't, but we just didn't have the resources to continue at this time because he had a backlog of program cases in other departments that we had to try to catch up on. And Mr. Currin has asked me for additional work here in the eastern district, which I haven't been able to grant his request yet. I don't know how many people would be enough people. That gets down to the old question, I suppose, of when is enough, enough. You brought up the question earlier, wouldn't we clog up the courts? Certainly, that is one of the things that we have to consider.

We've done these investigations in Fayetteville, we've done them in Buncombe County, and we've done them up in the middle district for Mr. McAllister. I have no reason to believe that this same problem doesn't exist in every other major city in the State of North Carolina or any other State.

The CHAIRMAN. Right.

Mr. BENTON. The larger the metropolitan area; and the less individualized it is as far as people knowing everybody, I think the worse it is. But you have it everywhere. About the only thing that I can say is that we're doing the best we can with what we've got, and I think we're doing a very good job. The agents have really done an outstanding job, and I would like to take this opportunity to tell you what a fine job agent Collins has done out in Asheville and what a fine job agent Weeks did as case agent in Fayetteville. Those boys have done all anybody could be asked to do.

The CHAIRMAN. At not a little risk to themselves, because of the nature of this stuff.

Mr. BENTON. Absolutely. We have—we've had some incidents—so far, luckily, we haven't—we haven't had anybody hurt. We have had one agent assaulted, but he managed to survive that incident without injury. But some of the areas that these fellows go into are—the situation's pretty risky, and it's at no small risk to themselves that they do this kind of work.

The CHAIRMAN. There's a television story about some Federal agents that had recovered some stolen food stamps from Philadelphia. I didn't catch all of that. Do you know the details of it? Was it $5 million or something?

Mr. BENTON. Well, it's 4.8 million dollars' worth of food stamps that was stolen from the Federal Bank Note Corporation in Philadelphia, PA, back in late December. And that case is under investigation now, and I wouldn't mention it here, except that it's already been in the news media in recent days, where we had information that there were some of these stolen stamps located down here in Fayetteville. And that's being investigated quite closely right at the present time. I've been involved in that in the last few days.

The CHAIRMAN. In the Philadelphia case, If I remember correctly, there was a whole forklift load of food stamps.

Mr. BENTON. I understand they got four pallets, four big pallets. They had intended to get eight; but it was my information, the truck wouldn't hold them.

The CHAIRMAN. You know, any system that would accommodate that much stolen property in the nature of a second currency, that tells you a lot about the system itself.

Mr. BENTON. Yes, sir.

The CHAIRMAN. Now, you talk about not having enough time to do all the things; and I understand that. What percentage of time do your agents spend on food stamps?

Mr. **Benton**. About 85.

The **Chairman**. About 85 percent?

Mr. **Benton**. I'll change that. About 85 percent of the cases that we work are food stamp cases; but then the food stamp cases don't take nearly as much time per case to work as do other program cases. So, I'd say probably we spend—I'd say in the last couple of years we've spent 50 percent of our time working with food stamp cases.

The **Chairman**. I was talking to a sheriff over in the western part of the State Friday, and he was surprised at the identity of some of the culprits. You know, they run automobile sales companies. So, it's not some low-down strata individuals; it's throughout the whole population, isn't it?

Mr. **Benton**. Yes. I never cease to be amazed—and by this remark, I certainly don't mean to imply that all automobile dealers——

The **Chairman**. Oh, no.

Mr. **Benton** [continuing]. Will sell automobiles for food stamps. But I have been greatly surprised at the number of them that we have approached that have been willing to do so; and, of course, you can see—everything you see on these tables, we've bought with food stamps: A refrigerator, a microwave oven, whatever—all of this stuff and those five automobiles up there. And we've also had some other vehicles purchased that haven't come to trial yet.

The **Chairman**. What's a package of that marijuana worth? What's the street price for it?

Mr. **Benton**. About $200 in money, but they usually get two for one. They always want $2 in food stamps for a dollar's——

The **Chairman**. So, each one of those brought 400 dollars' worth of food stamps?

Mr. **Benton**. About $350, $390, $400, each one of those small packages; yes, sir.

The **Chairman**. They bargain it out?

Mr. **Benton**. Yes, sir.

The **Chairman**. But it usually ends up between $350——

Mr. **Benton**. Usually about 50 percent. That's about the exchange price on all goods and services.

The **Chairman**. Well, we've had them reported to us from other States.

Mr. Alexander?

STATEMENT OF RICHARD ALEXANDER, SUPERVISORY AUDITOR, OFFICE OF INSPECTOR GENERAL, SOUTHEAST REGIONAL OFFICE, U.S. DEPARTMENT OF AGRICULTURE, RALEIGH, NC

Mr. **Alexander**. In line with what Mr. Benton has said, Senator, much of what I could have said has already been spoken. However, there is one thing I would like to talk a little bit about and that's prevention. After the IG Act of 1978 was passed, we started full mode into our fraud, waste, and abuse requirements. Food stamps being one of the largest programs in the U.S. Department of Agriculture, certainly consumed a large portion of our time, as it should have. I suppose our earliest thought in food stamps was how much fraud there was and how we could estimate with some degree of reasonableness how much there was. Wage matching seemed to offer us the technique that we could do that with. Much of our earlier activity was refining our methods to use wage matching. We obtained recipient-reported income and matched it with the use of computers with income reported to Social Security and primarily to the employment security commissions. Using statistical sampling techniques, we were able to get some reasonable estimates; and it was staggering, as you well know, and it was growing. So, our efforts went much more into supporting legislation that would enhance the use of this technique. We were strong advocates of the legislation that has been passed to make information more readily accessible in the Social Security and State employment security wage files, legislation to capture the Social Security numbers of all the household members of food stamp recipients and have those recorded so they can be used, and legislation that provided that we could use those numbers.

Then we moved forward as strong advocates of the legislation in the 1981 Agriculture Act which mandated that the States, effective January 1983, would be required to use the wage-matching techniques. In 1981 and early 1982, we commenced a series of audits. We commenced eight in the Southeastern United States, covering 12 counties—3 of those counties were in North Carolina—in which we went straightforward just to match the food stamp participation roles for 1 month against employment security commission files to determine how many people participated the 1 month we matched—how many people did not report their income or underreported their income and became certainly suspected fraudulent food stamp recipients.

In those 12 counties or in those 8 audits, we identified over 8,800 food stamp recipients who were receiving food stamp benefits of— I'm sorry, I don't have that figure with me. But we identified 8,000 cases. We came back later to follow up on our audits. We felt that on the basis of what we——

The **Chairman**. That's 8,800 cases——

Mr. **Alexander**. Households of suspected fraudulent participation in the food stamps because they either did not report their income or severely underreported their income.

We thought that these statistics would have been more than overwhelming for the States to fully implement the act in January 1983. We went back as of December 31 of this fiscal year, and we found that States had in fact established 5,654 claims against those 8,800 households. The amount of claims established was $5.2 million. Also, they had referred almost 1,700 cases for various types of prosecution action. And those 1,700 cases involved food stamps of about $2.4 million. While our work was done in late 1981 and 1982—and these figures are as of December 31—it shows that, of the 8,800-plus cases, that only about 5,650 had even been worked to the claim stage. So, there were a substantial number of cases that 1½ to 2 years later still had not been worked in claims actions.

We did some work this year in terms of whether the wage-match requirements had in fact been implemented, and we certaintly found substantially less than desirable implementation by the States.

The **Chairman**. How do you explain that?

Mr. ALEXANDER. I think there were probably two different things that came into play here. One was that some States simply just had not hired a sufficient number of employees to carry it out or simply yet did not view it as a useful tool. I think the other thing was that some States that took it seriously needed to revamp their whole system; that is, really to put in statewide automated systems so they could wage match right in the county with terminals on the desk so that when a recipient came in, they could draw up income information. They did not have those means and techniques, and it was not an overnight process to develop them—North Carolina being one case. They started forward to implementing a statewide automated system here in North Carolina. It is not yet fully operational. I understand that 54 of the counties do have good wage-match capabilities now.

Our office is monitoring the implementation of this process at each stage, and I believe it is due to be operational sometime—fully operational sometime this summer. It's a rather slow job in those developmental stages, and they're to be commended for moving forward.

The CHAIRMAN. Hypothetically, if the States had to put up a portion of the money for this program, do you think they'd be a little bit more enthusiastic about——

Mr. ALEXANDER. They're paying about half of it and the Federal Government is paying about half of the cost of these things.

The CHAIRMAN. No, I'm talking about the food stamps themselves, not the administrative costs.

Mr. ALEXANDER. Of the stamps?

The CHAIRMAN. Yes.

Mr. ALEXANDER. Oh, I'm sure they would; yes, sir.

The CHAIRMAN. Oh, yes, yes sir.

Mr. ALEXANDER. Absolutely. And it they don't put the money into the coupons, then it seems that they could at least put it in the administrative side to control the integrity of the issuance.

The CHAIRMAN. I'm not talking about just North Carolina.

Mr. ALEXANDER. No, sir, it's prevalent wherever we go.

The CHAIRMAN. I'm talking about the whole country. As long as they're giving away somebody else's money or the money that somebody else has to raise, there's going to be a continued disinterest. This is something politically that's difficult to persuade Congress about, because if you start talking about reforming the Food Stamp Program, immediately the liberal editors in this country start tarring you with being hardhearted and wanting to deprive the poor. Nobody wants to do that; nobody wants to be that. But I'm one Senator that thinks we ought to crack down on, first of all, the corruption, the criminality and, second, the disinterest in operating the program efficiently. The program is going to fall of its own weight.

Mr. ALEXANDER. Yes, sir.

The CHAIRMAN. I kid you not.

Mr. ALEXANDER. Senator, you know, I realize the value of the investigative services—and they're tremendous including the prosecutors—but they're after the fact, as far as I'm concerned.

The CHAIRMAN. Right.

Mr. **Alexander**. We need to emphasize prevention—when investigation begins the loss has occurred with anywhere from none to a minimal chance of recovery. So, therefore, we believe that prevention to the absolute extent and, certainly, the earliest of detection has to be paramount.

The **Chairman**. I don't think there's any question about it. It's got to be up front, the correction on this thing. There's no way that you can do more than scratch the surface, as we have said here this morning; and if you do, then what do you do to the court system? I mean, you've got a bevy of problems—or we have a bevy of problems trying to work our way out of the swamp.

Well, Mr. Collins?

STATEMENT OF JAY BEE COLLINS, SPECIAL AGENT, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, RALEIGH, NC

Mr. **Collins**. Mr. Helms, I am a special agent with the U.S. Department of Agriculture, Office of Inspector General, investigations, here in Raliegh; and our primary responsibility is to investigate all criminal acts committed against USDA. One of the programs in USDA, of course, is the Food Stamp Program. Now, when I'm called out to conduct an investigation in the Food Stamp Program, it's one of three areas: One, recipient area—this is where an individual gives false information in order to obtain food stamps or fails to give additional information when they're required to. We also do trafficking cases. This is where we actually go to the streets; we conduct street investigations, trying to purchase items with food stamps. And the third is the discounting investigation. This can be one of two places. This is where we try to take the stamps and receive money in lieu of services or items. This can take place either on the street or in the actual store which is authorized to accept food stamps. A lot of our cases in authorized stores is just going in and presenting stamps to the store clerk, the store owner, and in return, receiving cash that both parties dicker on and agree on.

In the recipient fraud-type case, most of our investigations now are using computer match. I've heard the word computer match several times this morning, but to give you how it works, on a certain day, Social Security numbers are taken from a DSS office. These Social Security numbers are fed into the employment security commission computers; and if there are records on that day that this Social Security number—or the person that owns the Social Security number is receiving stamps, the computer gives it to us. At that point, we go to the files and we look to see if in fact the person did report this income. If not, then an investigation is opened up; and so far, we have had a lot of luck in the computer match.

I've had the opportunity to work on two separate computer match investigations, one of them in Charlotte, NC, which Mr. Brewer discussed here earlier. I have some data on what I could find in my files. At that time, there were 21 cases that we did investigate. I think he said there were 24, but I could find 21. As the result of these cases, Mecklenburg County overissued $45,228 in food stamps. As the result of this investigation, this was recovered.

Also, I had an opportunity to conduct the operation in computer match in Mecklenburg County and I believe this investigation started around 1982. Auditors from USDA audit were sent in; and as the result, there were 960 potential cases uncovered. This represents approximately one-sixth of Buncombe County. The approximate number of households on the program was 6,000. With 960 questionables, it's not hard to figure out one-sixth of all households were in question. As the result of that investigation, as of today, there were 65 cases with an overissuance of $64,754. Now, in reading Mr. McClure's report here on August 7, 1983, he makes mention that the GAO report indicates that the foremost prevalent abuses of the system include: Failing to accurately report income or assets—well, in the 65 Asheville cases, we found 29 of these. Obtaining multiple cases—we found one multiple case. This gentleman was receiving food stamps in Buncombe County, in Marion, OH; Fort Payne, AL; and Gainesville, GA, at the same time. What makes it so bad, Senator, is that he was using the same Social Security number. There was no attempt to lie about his name or his Social Security number.

Failing to report changes that could result in termination or eligibility—we had 11 cases. Then a combination of failing to give accurate information or failing to supply information when needed—we had 25 cases.

The CHAIRMAN. Excuse me. Now, how did this fellow who received stamps in four different cities in four different States, widely separated—now, how did he get the stamps? I can understand how he could go to each one of them to apply. Were the stamps delivered to him by mail?

Mr. COLLINS. Well, he was really on the road constantly. Now, when we arrested this gentleman, he was in a motel room—or his wife was in a motel room. He was at the food stamp office in Buncombe County applying for a new certification. When we arrested him, he said, "I need to go because I told them I was going to check out at noon." So, he was there just for recertification purposes only; and then he was going to his next stop.

The CHAIRMAN. Now, what is the evidence about his MO? Was he trading in stamps, trafficking in stamps?

Mr. COLLINS. Well, I don't think he was trafficking. He was living in Ohio part of the time and in Gainesville, GA, part of the time with his sister and brother-in-law. He stated that his brother-in-law wanted him to get stamps there to help pay the food bill. So, he would not tell us whether was was discounting, trafficking or what; but we do know that he deals a lot in flea-market-type activities in these different areas.

The CHAIRMAN. What is the status of his case?

Mr. COLLINS. OK. He was indicted last week in Buncombe County, and he is presently incarcerated in the Buncombe County jail.

The CHAIRMAN. Now, he was in that sweep of 68 or whatever it was?

Mr. COLLINS. Yes, sir.

The CHAIRMAN. Last week?

Mr. Collins. Yes, sir.

The Chairman. I see.

Mr. Collins. Besides the recipient cases, we also handle the undercover operations. Now, a lot of times we hear the word "entrapment," as comes up in grand juries or in trials. But it's a policy of this office to establish before any deals go down that the person has either, one, participated in this activity prior to this or he is fully aware that he is about to commit a Federal offense. During an operation in Asheville, I had an opportunity to—a man approached me; he wanted to buy stamps. I asked him, you know, "you can get in a lot of trouble doing this. Have you ever done it before, in case you get caught?" He said, "no." Then, we went through the procedure of saying, "well, you know, you see what it says right here on these stamps? 'U.S. Department of Agriculture.' It is not a local offense; it's a Federal offense. You get caught, the Federal people are going to get ahold of you." At that point he said, "are you sure?" "Yes, I am." He says, "Well, I'll have nothing to do with that." And he threw them back in my face.

So, it's not the thing that we're out here trying to catch every Tom, Dick, and Harry. We try to establish that, one, they have done it before or, two, they're fully aware of what they're getting into.

Now, I had the opportunity within the last year, year and a half to participate in two undercover operations: Operation Booster Committee that was held in the middle district with Ken McAllister and Operation Food Stamp Trafficking in the western district with Mr. Brewer. As a result of these two undercover operations, in Operation Booster Committee, we looked at 22 cases here this morning. We put on the streets illegally $12,774.55 in food stamps. In return, we received $2,644 in cash, 1½ gallons of whiskey, 48 cans of beer, 2¼ pounds of marijuana, 5 grams of cocaine, 4 $20 bags of cocaine, 14 $25 bags of heroin, and 10 $20 bags of heroin.

Again, this operation, like any operation, has to come to a stop. The sky was the limit on what we could have actually done if we had conducted a long-term investigation.

In Operation Food Stamp Trafficking in Asheville, we used—or we put on the streets $15,443 in food stamps. We received in return $5,778 in cash. We received 1 car, 6 guns, 1 refrigerator, 1 sofa, 10 LSD tablets, 14 gold necklaces, 1 gold bracelet, 3 bags of marijuana, 1 turntable, 1 cassette recorder, 6 beers, 7 packs of small handtools; and I was able to place my college football bets every Friday afternoon with food stamps. Laying here on the table are the two actual bets that I made in the western district.

The Chairman. Did you win?

Mr. Collins. Too much paperwork, Senator. I couldn't afford to win.

When you look at the averages on these operations, in the recipient cases in Charlotte and in Asheville, the total overissuance on these 86 cases was $109,982. That's an average of $1,278.86 per case. Of course, in Asheville, we've only done 65 cases. There's a total possibility of 960. So, that can add up—you can figure up what that would add up to.

In the street trafficking cases between Greensboro and Asheville, the average case, we put on the street illegally $613.43.

The **Chairman**. Now, you say "we." How many people were involved? How many people were on the street?

Mr. **Collins**. In Greensboro, it was a combined effort between State, local, and Federal officials. In Asheville, there were two agents, myself, and agent Wayne Myers.

The **Chairman**. Now, these arrests have blown your cover?

Mr. **Collins**. Yes, sir.

The **Chairman**. So, you're out of it as far as those communities are concerned?

Mr. **Collins**. At this time. Now, that doesn't mean that at a later date we could not go back in and do other areas of town; but as of today and for some time afterward, yes, sir, it's blown.

Now, in my time of doing food stamp cases, one would ask what would I recommend and what I would see that would possibly improve the situation. In the recipient cases—now, I'm not aware of what the State is doing or what the Federal Government. I'm just looking at it as an investigator, what I see when I go into an office—would be possibly the better use of the computer. I have talked to a lady today in this program and they're trying to get the computer and use it fully in the State.

Now, you ask, you know, would that really help? Well, here's a gentleman sitting in the Buncombe County jail. He used the same Social Security number and the same name in five States; and had we been able to punch it into the computer, we would have had—he never would have got the second State. So, this is the example I'm using to show a better use of the equipment we have at our hands.

Now, as far as trafficking cases, the way I look at it, Senator, we're giving recipients some type of tradable item in their hand. Now, true, there's only one place that you can legally get rid of that stamp and that's at an authorized retail store. However, when that stamp goes out, you're supposed to have your identification card and present that with your signature and all of this. It is not done out in the real world. I doubt if 1 percent of all stores request to see something with identification as the stamps are being used.

We're giving that recipient a tradable item to take and to purchase anything he wants to. Now, in Buncombe County, we had several people state they were using the stamps to buy their groceries, but they're getting it at a 50-percent cut. One gentleman made the statement that he was going to buy his meat for the winter with his stamps. He had a meat man that would take them. So, if he bought $500 worth of stamps, he paid $250 and got a good freezer full of meat. But, what I'm saying, that recipient has something he can trade—not only that retail store. He's got something he can trade to you or anyone in this room. Then, you sit around and say, "Well, what can take place?" I don't know. But some type of card or something. Sometime we have all of this nice electronic equipment in stores now that perhaps can only be used at that store or at a retail store.

Now, if I took a food stamp card to any one of these car dealers up here or where we bought any of this equipment over here, if he doesn't have that machine, he's not going to get his money. Now, we're not going to completely wipe all the abuse. Now, I can still take that card and I can go to a retail store and I can say, "gee, Mr. Helms, here's my card. I need some cash." And you can still be—have discounting fraud take place, but you're not going to have the trafficking fraud out there at these car dealers, at these furniture dealers, at these trunks. Numerous times, we made deals out of the trunk of a car. And as long as that man is not going to get something in return for his merchandise, he's not going to deal with you.

I guess in closing, Mr. Helms—I don't leave home without it [displaying American Express Card]. But now if I was on the streets in Greensboro, in Asheville and, more than likely in Fayetteville, that would have done me no good. But that, sir, got me anything I wanted [displaying food stamp coupons].

The **CHAIRMAN.** That's excellent.

Mr. **COLLINS.** You make me a list of the 10 things you want to buy your family for Christmas. Between now and then, I'll get it for you for that.

The **CHAIRMAN.** Fine job.

Mr. **COLLINS.** Thank you.

Mr. **BENTON.** There's one thing that I failed to mention awhile ago that I did want to mention and this is the problem that we have in the authorized retailer, that we go out here and we catch him trafficking in food stamps; and even if he goes down to the court—we indict him and he goes to court and pleads guilty, says, "yes; I did it"—it's months and months and months later before he's ever suspended because they have to write him a letter telling him that he has a right to come in and appeal. This thing can go on for months and months. I wish there were some way that, once he is convicted or either pleads guilty, that suspension would be automatic without having to go through this long, drawn-out process of appeal. He's already admitted he's done it. What's he got to appeal?

The **CHAIRMAN.** That's right.

Mr. **BENTON.** But I have to follow up on those cases; and sometimes a year later, I check up and the people still haven't been suspended because they're still in the appeals process. And that sounds pretty ridiculous to me.

The **CHAIRMAN.** It is ridiculous.

Gentlemen, thank you very much. I have an idea there will be some Senators who will be very much interested in your testimony. I'm going to encourage them to be interested in your testimony. Thank you very much.

Now, our last panel is Patricia Fletcher, eligibility specialist, Forsyth Department of Social Services, and James A. Wight, director of the Wake County Department of Social Services. How do you do, ma'am? It's nice to see you.

Ms. **FLETCHER.** Just fine.

The **CHAIRMAN.** Hello, Mr. Wight.

Mr. **WIGHT.** How are you doing, Senator?

The **CHAIRMAN.** It's good to see you. Ms. Fletcher, you may proceed.

Ms. **FLETCHER.** All right. Thank you.

The **CHAIRMAN.** You've been waiting a long time.

Ms. **FLETCHER.** Yes; I'm about asleep.

The **CHAIRMAN.** Now you know what I go through all the time.

STATEMENT OF PATRICIA FLETCHER, ELIGIBILITY SPECIALIST, FOOD STAMPS, FORSYTH COUNTY DEPARTMENT OF SOCIAL SERVICES, WINSTON-SALEM, NC

Ms. FLETCHER. On behalf of the Board of Directors of the North Carolina State Chapter of the National Eligibility Workers Association, I want to thank you for this opportunity to respond to the proposed changes in the Food Stamp Program. I myself am a food stamp eligibility specialist for the Forsyth County Department of Social Services. I'm also a member of the Board of Directors of the North Carolina State Chapter of NEW and they're on whose behalf I'm testifying here today.

Now, our association has members in 28 States; and our membership consists of eligibility line workers, supervisors, trainers, quality control personnel, income maintenance reps, and other State and Federal personnel. I want to begin by addressing your proposals. As a food stamp worker, I feel these changes are needed and more; and I'll conclude with some additional suggestions.

First of all, on the error rate, we agree that the error rate needs to be lowered; however, 3 percent at this time doesn't appear to be realistic. Rather, a gradual lowering of the tolerance level would work better. Please keep in mind, so many things affect the error rate; and by solving one problem, you create another. We have found in our county, for instance, that by developing a supplement to the application and using an indepth interview, we could cut our error rate in half. However, by doing this, we in turn ran into problems with the timely processing of the applications. The States and counties are faced with a lack of staff and no funds to increase the staff, inadequate training, excessively high caseloads, poor interviewing conditions, and workers trying to administer more than one program. These problems must be solved before you will see a consistently low error rate.

The second one is where lump-sum payments are counted as income. In most cases, this would be a good idea; however, keep in mind the AFDC program uses retrospective budgeting, which the Food Stamp Program uses only for those required to report monthly. We would need to know more guidelines on how and when this could be counted as income.

On students—first of all, I feel that everyone who is an eligible student should be allowed a deduction for tuition and mandatory fees. I favor this more than deleting the deduction together. Second, I definitely agree students' income and resources should be counted whether the student is eligible or not. If the student is ineligible, it should be counted on a prorated basis. In a lot of instances, it's a parent or spouse attending school. And by ignoring their income, the remaining household members can receive food stamps based on zero income.

Finally, we find the concept of adequate child care ludicrous in determining if a student is eligible or not. On improved verifications, it seems the more facts that are verified, the fewer errors are made and the lesser chance for fraud to occur. We have found that verifying household composition is helpful, and we're also getting a lot of additional information from wage matches, ESC crossmatch, checking property listings, and vehicles and school system.

I work in applications now, and we're getting all of this information on the head of household prior to them seeing us. So, it is a big help.

On the household definition, I can't talk about this enough. This is probably the most manipulated area in the Food Stamp Program. In 99 percent of the cases, a separate household does not exist. It's created solely for the purpose of receiving more food stamps or for part of the household to qualify when the entire household will not. I feel like there should be one household under one roof, except in the case of commercial rooming houses. I feel the definition of a roomer should be tightened up. The majority of roomers that we see are those with little or no reported income who end up receiving the maximum allotment. On collection of overissuances, interceptive unemployment, State and Federal tax refunds, you've probably had a very good feedback on this—more so than what I can give you. I've made a couple of comments on that.

On your dividend information, you know, I have mixed feelings on whether or not this would be cost effective. It may be that a pilot project to see would be better on that. We agree on the photo identifications. Now, on expedited service, this is a very good concept; but it's also a high-error situation. Too often ineligible cases are certified because the worker runs out of the time needed to make necessary verifications. Also, it's a good way for those who need some extra income fast to come up with it. Seventy-six dollars for one person in 5 days isn't bad; and when these same people are told that they have a 30-day processing time that they're facing, either they don't go through with the application or they never send back in requesting verifications. So, it's a big thing right there you've got.

On your resources, the landholdings over the 10 acres, in our county we don't have this problem. One thing you may want to keep in mind is that land is a very nonliquid resource and, in our economic times, probably not the easiest thing to convert to a liquid resource.

On adult responsibility and liability, first, I don't think this will make any difference to those who are deliberately commiting fraud, except to give the workers in prosecuting; and, second, there are those who, due to their age or mental deficiences, to whom this would not mean a thing. On eliminating the cash change from food stamps, yes. It's amazing what can be bought with the change from food stamps. According to our clients, they provide for basically all their needs: Their toilet items, their paper products, everything that they can't buy with the food stamps.

The CHAIRMAN. If I may interrupt—Senator Hayakawa, former Senator from California—he was just obsessed with the fact that they would take their change—they would buy a tiny item, get their change, and go next door and buy Perrier water. He was bugged by the purchase of Perrier water with their food stamps.

Ms. FLETCHER. I like the idea of using the vouchers or credit slips for this. I think it would be very helpful. I also worked at one time with a chain of convenience stores, and children are all the time coming in with a dollar in food stamps and getting 10 cents' worth of candy and then take their mom the change back. So, you know, you sort of wonder what they're doing with that.

Elimination of the $10 minimum benefit. Now, on this, I want to share with you one of the saddest injustices of the Food Stamp Program. The majority of the people receiving this $10 a month allotment are disabled, handicapped, and elderly citizens. Few of them receive more than this amount. In sharp contrast are those who are young and physically fit and able to improve their situation, if they so choose, receiving $76 a month because they don't choose to do so. I feel our disabled, handicapped, and elderly clients should be eligible for a lot more benefits than they are now receiving.

I'd like to bring your attention now to other loopholes and problems in the Food Stamp Program. And the first of these is Social Security numbers. The regulations on Social Security numbers are constantly changing. We're on our third regulation in the past year as far as Social Security numbers. They tighten up and they loosen up. We need a firm, steady regulation. So many of our verifications are now dependent on a correct Social Security number, I would suggest that, first, either the Social Security number be provided for or application made before the household is certified and, second, at recertification or reapplication, all numbers be verified by a Social Security card or the household is terminated. It sounds strong; but, you know, we've got to do something that we have these numbers and they've correct on everyone. On voluntary quit, I was glad someone else brought this up. At the present time, this can only be imposed at the time of application. Instead, it should be at any time one is receiving or applying for food stamps. Too often people apply or begin receiving food stamps and then quit their job in order to qualify for more food stamps. Also, you have the concept of primary wage earner which we feel should be deleted and voluntary quit applied to anyone who is working.

On reserve, we shouldn't exempt what they are trying to sell as this is very likely soon to be converted to liquid reserve which is not going to be reported. On income, count the income of everyone 16 or older, whether in school or not; and we need to also be counting vendor payments and loans as income. This is a loophole second only to household composition, and we're finding that the people that manipulate household composition are also the ones manipulating their income. They come up with vendor payments and loans as a matter showing how they have managed to exist, when they actually show little or no income over an extended period of time.

We're suggesting add-to mandatory verifications, how expenses are met in situations where lack of reported income is over 3 months.

In closing, I would like to say that these proposals would be very helpful to those of us who work with the Food Stamp Program. I feel only those who are truly eligible should be receiving benefits. However, sometimes we are handicapped by the program's regulations. Please keep in mind that we are not an uncaring, inefficient part of the bureaucracy. For the most part, we are consciously trying to serve our clients as efficiently, courteously, and correctly as possible. We are constantly faced with overlarge caseloads, a lack of privacy for our interviews, lack of training opportunities, and trying to administer more than one program. These are enough without the added burden of a program full of loopholes open to several different interpretations. I thank you for your time. That concludes my testimony, and I'll answer any questions.

The CHAIRMAN. Excellent. An excellent statement.

Ms. FLETCHER. Thank you.

The CHAIRMAN. Mr. Wight?

STATEMENT OF JAMES A. WIGHT, DIRECTOR, WAKE COUNTY DEPARTMENT OF SOCIAL SERVICES, RALEIGH, NC

Mr. WIGHT. Senator Helms and members of your staff, I want to thank you for the opportunity of appearing here before you to represent our association.[1] I'm the director of the Wake County Department of Social Services and, at the request of our president, Ms. Ann Harrell—our association president from Beaufort County—represent the North Carolina Directors of Social Services Association.

Our association represents 96 of the 100 county directors in this State. The basic position of the association is that we share the concern of yourself about any abuse of the Food Stamp Program. We recognize that abuse of this basic nutritional program available for low-income people in the United States seriously erodes the potential of this program to continue to successfully meet one of the Nation's prime social problems—that of hunger.

It is regrettable that, with this program—as with so many others—there are people who abuse or take unfair advantage of Government programs. But in our efforts to expose the abusers, let us not forget the vast majority in desperate need and who do use this program appropriately and honestly.

The full statement of the association's position is contained in the letter addressed to you on February 28, 1984, a copy of which I am enclosing as appendix "A."

The directors of social service throughout North Carolina have been very active participants in the effort to reduce error rates which has been successful in this State. I cite the fact that North Carolina is 1 of only 11 States that has no sanctions levied against it under either the Michael amendment or the Tax Equity Finance Reform Act [TEFRA]. Further the State, through a cooperative effort of the State Division of social services and the various counties, has significantly reduced our error rate in food stamps from a high in the Federal fiscal year 1981 of 14.8 percent to 7.1 in fiscal year 1983. For the past 2 fiscal years, the error rate of the State has been below the Federal tolerance level. In looking at this progress, I discussed this with my food stamp staff; and they identified, and I concur, that this error rate reduction is the result of three major efforts. First, there's been an increase in staff and better trained staff in the local levels to handle the eligibility process. Some of this training has been by local initiatives, some by State initiative.

Second, the increasing use—statewide, but especially in the larger counties—of 100-percent, second-party review of eligibility determination by supervisors and lead workers—and, frankly, with a lot more training invested in those. Third, the effect of automation in the Food Stamp Program. The State food stamp information system has some built-in computational features which are cutting into mathematical errors. Also—and I think this is very important—the computer cross-matches—and there has been a lot of discussion of that here. Two examples that will be statewide are the unemployment or employment security commission data both on wages and on unemployment compensation and the motor vehicle registration with the department of motor vehicles.

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[1] See p. 156 for the prepared statement of Mr. Wight.

Locally, we've had for some time a cross-reference match on county tax records. These are the kind of things that, at the front end of the system, help prevent ineligible payments from even getting started.

But to improve onward and looking toward a declining Federal tolerance level, the system itself is going to need some change; and attached as appendix "B," you'll find a series of recommendations from my staff. Now, these are not from the association; because these have not been reviewed yet by the association. Many of these are similar to the testimony of the previous witness. One thing I would note, in your bill submitted to Congress on October 25, that in your definition of the "household," this has been very positively addressed. Also, on student loan grants and income—this is not a big item in terms of total number of cases; but in those areas where you do have large student population, the exclusion of this income totally is a significant problem.

The Federal income tax intercept concept is working well in the child support enforcement program, and we feel for those cases where we have established a recoupment or obligation to repay could work just—equally well. And I would say, also, extending this as an option for State income tax refunds, similar as we started in North Carolina with State first on child support.

In considering the problem of fraud, waste, and abuse in the Food Stamp Program, this must be kept in perspective. Otherwise, the baby gets thrown out the window with the bathwater; and this is a very important baby for the low-income people. An example of this was our audit which, frankly, I welcomed from the USDA, mainly because we got one of the most positive advantages out of it in that it accelerated the starting of the cross-match between employment security commission data and food stamps data. The system that we've been using in AFDC since the early 1970's still produces most of our suspected fraud cases in AFDC.

In Wake County there were 577 cases found where it appeared there was unreported income. The way I understood that audit, it covered a 2-year period of our food stamp experience. With the amount of caseload that we have, turnover, et cetera, this would have been between 5 and 6 percent of our total unduplicated count of households in that period. Also, 59 of these 577 have been found to be unfounded. This is one of the problems with these kind of cross-matches, is you get them and then you need to clean up the data. And this is especially true when you first get into this. We had this back in 1971 when we first went into it in AFDC, and it took us about a year or so to get that data down to the point that you could really rely on it. And, still, we run into situations where somebody has transposed a Social Security number on either the employer's record or in a food stamp or AFDC. This is being lessened. Fifty-nine of the cases were totally unfounded. Forty-seven that had been investigated completely were of such a nature that, by USDA regulations, they're in what are called the suspended group—in other words, less than $35 or very—so questionable that it could not be pursued. Thus, about 18 percent of our total of those 577 has been dropped. This 5 percent—and this is pretty much a hard, bottom figure in the fraud area. Over the years, in the quality control samples that have been statistically pulled in AFDC, food stamps and medicaid, from study that's been done recently by our State office, roughly about 5 percent of the cases that were pulled, there were grounds in the course of that to establish "this is probable fraud." When I use "fraud," I mean it in the term of willful intent to obtain benefits to which one is not entitled.

One of the problems—and I think this is one problem that has surfaced here today very vividly—is that when we think of food stamp fraud and when the public thinks of food stamp fraud, they generally think of recipient fraud. What has been evidenced here today is that—and in many of these recent major arrests—is that a terrific amount of it is in the trafficking and in the discounting or merchant abuse. Now, how to separate the program from that, we've got the same logic problem that the banking industry has with credit card fraud and the U.S. Tresury has with criminals using dollar bills illegally. And it's basically the same problem here. The only difference is, there is the mechanism of the discounting.

Now, I would encourage—and I think we need this—the continued partnership that exists between the Federal, State, and local efforts to improve this program. Attached is appendix "D." You will find a list of some nine initiatives that our State has taken in the antifraud or fraud abuse efforts. Some of these have been referred to, but this pulls them together. Because we've got a program that has met its social goal of meeting hunger probably better than most other social programs that have ever been created. We do have an abuse problem. We do have a problem that it needs to be tightened up, and part of your bill and part of the suggestions that you'll see in appendix "B" may help to do this.

But we do need to work on it. Otherwise, as I said earlier, the baby might get thrown out the window with the bathwater. I thank you for your consideration and your willingness to hear the views of the association and of us here in Wake County.

The CHAIRMAN. Well, I'm grateful that you have come and spent the time that you have. You're right, to a great degree. Most people, I imagine, do think only in terms of the recipient, but not me. I think in terms of the whole thing, and you wouldn't have the trafficking if you didn't have the overissuance problem, see. And that's what I'm trying to get at. I've been appalled, really, as I look around at what some States are not doing and are not even willing to do in terms of trying to make a credible program out of this. To the extent that any of us fail to do whatever is essential and whatever is fair to bring this program into line so that it will be a program that is fair and equitable to all concerned—if we fail to do that, then we're failing our responsibility as public servants.

Now, this will not be the—this is not the first, nor will it be the last of the hearings we will conduct. I want to hear from all conscientious groups; I don't want to hear from any demagogues about it. I'm not going to waste my time with that, but the General Accounting Office and the Office of Inspector General within the Department of Agriculture—these and others have consistently made recommendations, many of which were adopted in the last several years. But as you have indicated yourself, it's sort of a trial-and-error thing; and I say again that all wisdom does not reside in Washington, DC.

I was struck by the Grace Commission's attention to this. Now, true enough, within 2 or 3 hours after the 2,000-page Grace Commission report was released, some of the media brethren were attacking it, saying it was not credible at all. But I spent many an hour studying it, and the Commission has made some reasonable recommendations for improving the verification of welfare eligibility, including food stamps. I think we ought to listen to everybody. That doesn't mean we've got to accept them; it doesn't mean that we can't agree to disagree agreeably. But I hope that we can come to the point that all of us agree that we have a duty to do the best we can with this program.

Now, there are various proposals that we will consider; and, incidentally we have another hearing Wednesday. The Grace Commission is going to be testifying on this. We've got a lot of stuff here to read, and this is the best sleeping pill I ever saw, just to open this up just before you go to bed; but that's a part—that comes with the territory.

Well, Mr. Boney, have we called everybody?

Mr. **Boney**. I believe so.

The **Chairman**. Mr. Boney is from Alamance County, by the way; and he has served on the staff of the Agriculture Committee with distinction and he's a bulldog.

Well, thank you very much for appearing; and I thank all witnesses. If there will be no further business to come before the committee, as they say, we will stand adjourned.

[Whereupon, at 1 p.m., the committee recessed to reconvene at 10 a.m., Wednesday, March 21, 1984, in room 328-A, Russell Senate Office Building.]

[The following information was subsequently received by the committee:]

County of Wake,
Department of Social Services,
Raleigh, NC, August 10, 1984.

Mr. Warren Oxford,
Clerk, Senate Committee on Agriculture, Nutrition, and Forestry,
Russell Senate Office Building, Washington, DC.

Dear Mr. Oxford: In response to Senator Helms' earlier letter requesting some additional information, I would like to submit the attached responses. For your convenience, I am responding in the same format and order as the questions posed by Senator Helms. In a few cases, I have indicated appropriate sources to obtain additional information if needed beyond these responses. Please contact me if data other than the sources can provide is needed. It should also be noted that my earlier testimony, given at the Committee Hearing conducted by Senator Helms in Raleigh, North Carolina earlier this Spring, was in the capacity of representative for the North Carolina Directors of Social Service Association, not in my capacity as Director, Wake County Department of Social Services. However, I note that most of the questions pertain very much to our local situation and I wish to note in this response this difference of approach.

Thank you for your consideration.

Sincerely,

JAMES A. WIGHT, *Director.*

Enclosures.

ADDITIONAL QUESTIONS SUBMITTED TO JAMES A. WIGHT, DIRECTOR, WAKE COUNTY DEPARTMENT OF SOCIAL SERVICES BY SENATOR JESSE HELMS, AND ANSWERS THERETO

Question 1. You mentioned a 7.1 percent error rate for North Carolina in fiscal year 1983. This is apparently an unverified figure inasmuch as USDA has not yet released official statistics for that time period. Do you have information on North Carolina's submitted error rates for the past several years (by six month reporting periods) and the subsequent final, verified (or regressed) figures released by the Department of Agriculture?

Answer. According to figures obtained from the Food Stamp Operations Section of the North Carolina Division of Social Services, Department of Human Resources, the following are the six month period error rates for the State of North Carolina as determined by the State-submitted final figures to the U.S. Department of Agriculture. Regrettably, the State does not have readily available the USDA verified or regressed figures as it appears it is not the practice of the USDA to release these figures to the State. I would recommend, if these figures need to be obtained for comparable periods, that the appropriate section of the U.S. Department of Agriculture be contacted.

October, 1980–March, 1981, 15.26 percent.
April, 1981–September, 1981, 14.32 percent.
October, 1981–March, 1982, 13.07 percent.
April, 1982–September, 1982, 11.48 percent.
October, 1982–March, 1983, 6.53 percent.
April, 1983–September, 1983, 8.20 percent.
October, 1983–March, 1984, 5.61 percent.

It should be noted in the above figures that, for the period October, 1980 through September, 1982, according to USDA Quality Control Regulations, these State figures not only included totally ineligible cases and overissuance cases, but also under-issuance cases. Subsequently, beginning in October, 1982 through March, 1983, USDA regulations changed and the States reported in Food Stamps similar to in AFDC based on dollar errors and did not include under-issuance cases in their computations.

Question 2. Figures from the Department of Agriculture indicate that over-issuances and ineligible payments have fluctuated over the years (during the six month reporting periods) both nationally and in North Carolina. To what do you attribute these fluctuations?

Answer. From a local Department's viewpoint, the fluctuation which is seen Food Stamp error rates as indicated above are cause for the following factors:

1. The downward trend in error rates reflects considerable additional attention, efforts, and State and local implementing policies aimed at reduction;

2. The Food Stamp program policies which are set predominantly at the Federal level of government have fluctuated greatly over this time period. Implementation of these fluctuating policies will result in fluctuating error rates;

3. As evidenced in the three last periods, due to much of the lower income employment in North Carolina being agriculturally related, the seasonal income factor during the April–September Quality Control period may accelerate earned income errors because of irregular seasonal agriculture related incomes.

Question 3. The General Accounting Office issued a report earlier this year on the need to reduce administrative costs associated with the AFDC and food stamp programs—"Federal and State Initiatives Needed to Improve Productivity and Reduce Administrative Costs of the Aid to Families with Dependent Children and Food Stamp Programs", February 2, 1984. Three offices in Wake County were among those examined, and were below average in productivity measures. Do you expect that the greater use of automation in Wake County, which you mentioned, will improve productivity and reduce administrative costs, as suggested by the GAO?

Answer. In regard to the greater use of automation with the potential of increasing productivity and reducing administrative costs as suggested by GAO Audits, it would appear from our experience to date with the Food Stamp Information System and the improved Eligibility Information System for the AFDC and Medicaid Programs that, while we have not experienced administrative cost reductions as a result of these automated assistances, we have experienced administrative cost avoidances to enable the Agency to accommodate the increased accountability procedures and processes required by such measures as the Omnibus Reconciliation Act and the Tax Reform Act.

Question 4. What is the caseload to staff ratio in Wake County for the food stamp program? What is the caseload to staff ratio in Wake County for the Aid to Families with Dependent Children program?

Answer. In regard to caseload and staff ratio of the AFDC and Food Stamp Programs, two basic groups of cases in each category of assistance must be considered: the average number of active cases which must be continuously reviewed in accordance with the requirements of the Programs Monthly Reporting and Periodic Reporting in both programs; and the total number of applications which are processed during the year. In the AFDC program, we have a full time equivalent of 30 Eligibility Specialists who are responsible for the re-determination of eligibility on an average monthly caseload of 2,432 cases and who, during Fiscal Year 1983-84, processed 2,911 applications. In the Food Stamp Program, we have the full time equivalent of 25½ Eligibility Specialists who are responsible for the Monthly Reporting and Periodic Review of an average monthly caseload of 5,764 active cases, and processed a total of 6,272 applications.

Question 5. In 1982, the Office of Inspector General conducted an audit of the food stamp program in Wake County to which you referred. One of the findings from that audit was that the case files for 83 of 574 suspected fraud cases disclosed through the OIG audit could not be located by county personnel. The Inspector General requested that those files should be located and reviewed, and that the review should be furnished to the Inspector General. For files that could not be located, the OIG said the county should reimburse the Federal Government for the overissuances which occurred, which the OIG noted could be approximately $75,000. What has been the outcome of these recommendations? Has the county reimbursed the Federal Government for overissuances for any case files that were not located?

Answer. According to follow up reports submitted to the State Division of Social Services, and through there forwarded to USDA, of the 83 cases on which files could not be located at the time of the OIG Audit (March 16, 1984), all but 20 of these files were subsequently located. The remaining 20, as all of these cases are being cleared out through our Fraud Unit, are being further searched and pursued. It should also be noted that a number of the 574 suspected fraud cases disclosed through the OIG Audit were already in our Fraud Unit on referral from Eligibility staff. Further, it should be noted that, of the suspected fraud cases thoroughly investigated to date, 24% have proven to be non-fraudulent.

Question 6. As you may know, the Office of Inspector General has conducted numerous audits nationally involving matching of food stamp roles with wage information maintained by state employment services. On June 1, 1984, after an audit in Wake County, the Inspector General recommended that Wake County undertake wage matching. Again on August 26, 1982, the Inspector General renewed his recommendation for wage matching in Wake County at the conclusion of another audit. Meanwhile the Congress enacted legislation I sponsored to require, effective January 1, 1983, that all States undertake wage matching. However, a new (January 27, 1984), OIG report indicates that none of the 15 States it reviewed were in full compliance with the wage match regulations. This audit included North Carolina, and specifically Wake County again. Why did the county not follow the initial OIG recommendations, and why has the county not complied with Federal law and regulations since the wage match provision has become mandatory? Are you now in compliance?

Answer. In response to the inquiry relative to wage match verification approach, the following actions by this County's Food Stamp Program should be pointed out. Following the initial recommendation in June of 1981, we found that the wage matching on Employment Security Commission data would have to be initiated at the State level and be an addition to the State Plan. In the Fiscal Year 1981-82 Wake County did, through local initiatives, develop a wage matching test with large public payrolls available to the County and ran test runs against our local computerized Food Stamp Information System. These public payrolls included the payrolls of Wake County, the County School System, the County Hospital, and the City of Raleigh. Further, when the State developed the cross-match initiative and preliminary implementation with Employment Security Commission's data base, Wake County along with two other Counties in the State, piloted this effort on an on-line, interactive system. This system is now in place and utilized throughout North Carolina including Wake County.

Question 7. The North Carolina Association of County Directors of Social Service has repeatedly expressed opposition to the new procedure requiring the use of monthly reporting and retrospective budgeting for certain food stamp households, and urging that this requirement be made optional at the discretion of the State. Of course, the problem with that has been that when it *was* optional (prior to January 1, 1984) very few areas used it. To what extent, prior to January 1, 1984, did you use monthly reporting or retrospective budgeting?

Answer. Prior to the State-wide implementation of the monthly reporting and retrospective budgeting method, as this was not a part of the State plan, we did not implement it as local agencies must follow the State's plan of operation. However, it has been the practice in this Agency and in the majority of other Counties in North Carolina to do monthly certification of cases with highly fluctuating income or questionable reporting. This is especially true in the initial history with some of these cases.

Question 8. As you know, the monthly reporting and retrospective budgeting requirement provides that States may seek waivers of categories of participants for which the provision may not be cost effective. For what groups of recipients (not already waived from participation) do you feel this provision is not cost effective?

Answer. Monthly reporting and retrospective budgeting does not appear to be cost effective with AFDC cases that are already monthly reporting, as this is duplicative and information could be transferred, especially if definitions of income and other economic factors could be brought more in harmony between these two programs. However, this will require consistency of definitions and interpretation at the Federal level between these two major assistance programs. Also, the North Carolina waiver is based on a previously established study conducted by Research Triangle Institute which determined the most cost effective group of clients to be included in monthly reporting. It would appear that this system is now in place and working.

Question 9. A General Accounting Office report two years ago indicated that North Carolina was among the many States that, at that time, did not have the capability of detecting multiple food stamp participation in more than one county within the State—"States' Capability to Prevent or Detect Multiple Participation in the Food Stamp Program", June 16, 1982. Do you know whether it is now possible to ensure that a recipient is not receiving benefits in more than one of the 100 counties?

Answer. At the time of the GAO Audit indicating that North Carolina was among the States that did not have the capacity to detect multiple Food Stamp participation in more than one county, the State was in process of developing its State-wide Food Stamp Information System. Up until that time, individual counties had had their own information control systems, either automated or manual. Many of the automated systems, including Wake's, had some edits in them to determine multiple listings of persons. With the State-wide implementation of the Food Stamp Information System and full enumeration of all Food Stamp beneficiaries with individual Social Security Numbers, system edits are now possible and, as I understand it, in place and running, to determine multiple listing of individuals or households, both within counties and between the 100 counties. For further information on this, I would refer you to the North Carolina Division of Social Services, Food Stamp Operations Section.

OVERSIGHT OF THE FOOD STAMP PROGRAM

WEDNESDAY, MARCH 21, 1984

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SR-328-A, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms, Andrews, and Zorinsky.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order.

The hearing today continues the committee's regular oversight of the Food Stamp Program. I wish other Senators could have been present Monday, in Raleigh, where excellent testimony from all levels of program administration was received. Witnesses provided many suggestions which I hope will remind Senators of our responsibilities and our duties to the taxpayers, as we consider future food stamp legislation, and indeed, all legislation.

I suppose I was most impressed on Monday by the dedication of many local and Federal officials to improve the program. The dedication of these people to provide for those truly in need is commendable, as is the diligence with which they work to eliminate abuses from the program, and those abuses are many.

These abuses continue to undermine the taxpaying public's confidence in the program. I have introduced legislation, the Food Stamp Integrity and Accountability Act, intended to address these needed changes. Senator McClure and others have introduced legislation, the Food Stamp Reform Act, which also proposes justifiable reforms in the program.[1]

Continued diligence is necessary to find ways to target the benefits and reduce the spiralling Federal costs not only for food stamps, but all other welfare programs as well.

In addition to the recommendations by those who work directly with the program, the Food Stamp Program has been the focus of at least two major reviews during the past year. The Grace Commission, which examined all Federal programs, had three separate task forces which devoted part of their review and recommendations to the program.

The committee has heard previously from the task force on the Department of Agriculture. Today, we want to hear from two other task forces, on low income standards and benefits, and the one on financial asset management.

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[1] See pp. 288–343 for reprints of the above-referred-to legislation, S. 1727 and S. 1993.

Additionally, the President's Task Force on Food Assistance made recommendations to the President on reforming various food assistance programs, and these recommendations predominantly dealt with the Food Stamp Program, and they warrant close scrutiny.

These two reviews by the Grace Commission and the President's Task Force on Food Assistance demonstrate that fresh examination of the Food Stamp Program can produce innovative recommendations designed to improve the program's performance in providing for the poor and at the same time, raise the public's perception of the program by removing the abuses and the mismanagement.

We welcome a distinguished Senator this morning, Jim McClure, from Idaho. Jim has been in the forefront of trying to curb waste and mismanagement throughout Government. He is a great Senator, and he is my friend. Jim, I want you to know that we appreciate your appearing here today, and you may proceed as you wish.

STATEMENT OF HON. JAMES A. McCLURE, A U.S. SENATOR FROM IDAHO

Senator McClure. Thank you very much, Mr. Chairman.

I very much appreciate the opportunity to be here, and I think all of us at the outset owe you and others a debt of gratitude for having made progress in trying to reform the program already, and the search for some statistical base for the charges that are made. I think it is worth noting that while the so-called error, fraud, and abuse index a few years ago was at a high of 18 percent of the program, that has been reduced. But it is still too high, and I think further progress is necessary.

Mr. Chairman, you are not against feeding hungry Americans, and neither am I. The Food Stamp Program was set up with the very best of intentions, and it is a necessary program for many people in this country, who find themselves in circumstances beyond their control. Certainly, we as a society have a human obligation to help people in need.

But Mr. Chairman, I also firmly believe we have an obligation to the American taxpayer who is shouldering the burden of a $1 trillion debt. Every Member of Congress knows why we have deficits and this enormous debt—the entitlement programs. The Food Stamp Program is a classic example of an entitlement program run wild.

In 1961, the Federal Government, recognizing the need to help hungry people, set up a small antihunger program in eight U.S. counties at a cost of $13 million. This experimental project blossomed into the current Food Stamp Program enacted in 1964, at a cost of $56 million. By 1978, it cost exactly 100 times the original amount, and this year, we are talking about a program that will exceed $12 billion.

The cost of food stamps may be relatively small when compared to some of the granddaddy entitlement programs like medicare, but it is no small burden to the average taxpaying American who pays $167.66 out of his pocket every year to finance food stamps.

If we sent each taxpayer an invoice every year for his portion of the food stamp tab, the public outcry would be much louder than my statement before this committee today.

The entitlements must be reformed, and I hope this hearing today will focus some attention on at least one of these benefit programs.

As you know, Mr. Chairman, I have introduced a food stamp reform package, and I am pleased to have Senators Armstrong and Garn join me in this effort. I would like to speak just briefly about our bill and why I believe it is an honest attempt at curbing the tremendous growth of at least one entitlement.

The Food Stamp Reform Act contains 16 separate reforms. Some of the provisions in our bill are the very recommendations of the Grace Commission.

In the task force report on low income standards and benefits report, the Grace Commission points out that income verification for needs-based programs falls under the jurisdiction of the Social Security Administration, Health and Human Services, HUD, Office of Personnel Management, the Internal Revenue Service, and the Department of Agriculture. How anyone can figure out what the verification process is, given the number of Federal agencies involved, is almost beyond me, and certainly beyond them.

The Grace Commission, using 1982 data, states that billions of dollars are wasted every year in overpayments and that "The majority of these overpayments are due to inadequate verification of recipients' income and assets."

The Food Stamp Reform Act, S. 1727, addresses the matter of income verification in several ways. It would permit the states to use the same assets test as for aid to families with dependent children, or in the case of the elderly or disabled, permits the use of the assets test for supplemental security income. The bill counts as income for eligibility determination such things as income tax rebates and Federal energy assistance payments. Our bill also permits the cross-matching with dividend and interest income information reported to the IRS to determine unreported income to the households.

The Grace Commission also strongly recommends that debts owed to the Government be offset against IRS tax refunds. S. 1727 permits the States to intercept Federal income tax refunds to pay for overissuance of food stamps due to fraud.

S. 1727 also eliminates the $10 minimum food stamp benefit. The Grace Commission states:

> The clear purpose of the $10 minimum benefit provision is to increase the participation rate among the elderly. It has not served that purpose, but primarily caused the distribution of extra, unnecessary benefits.

The commission states that by eliminating the minimum benefit for one and two-person households whose calculated benefit is zero, we could save $104.6 million over 3 years.

As our former colleague, Ev Dirksen, said, "A million here, a million there, and pretty soon we are talking about real money."

In particular, I think there is one provision in the bill that will eliminate the abuse that comes most often to my attention. I hear frequently from grocery store owners who describe food stamp recipients purchasing a small-ticket item with a food stamp, then using the leftover change to buy cigarettes and beer. The McClure/Armstrong/Garn bill would require food stamp purchases to be made in even-dollar amounts requiring the recipient to pay from 1 to 99 cents is certainly not an intolerable burden. I doubt if we will ever be able to limit the kinds of food that can be purchased with food stamps, but requiring even-dollar purchases will clearly eliminate one abuse.

Mr Chairman, I do not want to dwell too much this morning on my own bill, although I hope the committee will give it serious, indepth consideration. There are other approaches to food stamp reform, and they deserve our attention as well.

In 1975, Mr. Chairman, four Idahoans, a welfare investigator, an eligibility examiner, a county commissioner and the current administrator for Idaho's welfare programs, Theo Murdock, testified before this committee regarding food stamps. I thought that the committee might be interested in hearing some of Mr. Murdock's comments from 9 years ago. I quote:

> The Food Stamp Program represents the most primitive and archaic system of offering assistance that has been designed since the age of "lesser eligibility." Particularly, it is punitive in regard to the elderly who maintain considerable pride and refuse to use "funny money" in the stores where their friends and neighbors readily identify them as recipients of assistance. Many of us have witnessed the embarrassment of a child making a purchase with food stamps, or listened to a woman's tearful accounts of the rude treatment directed toward her, or sympathized with the nonrecipient complaining of the recipient purchasing 30 T-bone steaks with food stamps.

Mr. Murdock goes on to say that not only are food stamps a punitive way to help persons in need of foods, but it is administratively a very expensive way to provide this assistance. I quote again from Mr. Murdock's testimony:

> It is my feeling that the food stamp as such should be done away with. By so doing, we not only eliminate the punitiveness of that particular form of food subsidy, but we eliminate what has become a second, costly currency system within the United States Treasury. By eliminating this second system, we would eliminate the costs involved in printing food stamps, the distribution of these food stamps, the mass network and recordkeeping systems that has been established to allow merchants and banks to get credit for the food stamps they take in lieu of cash.

Nine years ago, Mr. Chairman, Mr. Murdock recommended that food stamps be eliminated, and that those individuals who have already been proven to be in the low-income sector be given a food allocation in the form of increased cash payments through their assistance checks—SSI, Social Security, and unemployment benefits. Mr. Murdock further proposed that to meet the needs of people who do not fall into another assistance category, that is, the working poor, we should establish an emergency food system to provide immediate relief as well as acting as an information and referral point to make sure individuals eligible for more long-term assistance were availing themselves of those programs.

The natural question Mr. Murdock received in response to his proposal was "What is going to keep a person from using their money for something other than junk food?" Mr. Murdock's reply was—and it is just as accurate now as it was then—"What is keeping a person from buying junk food and not getting a nutritionally adequate diet right now?"

Mr. Murdock's suggestion was not well received by this committee 9 years ago, Mr. Chairman, but at least we learned something in that time. As part of reconciliation in 1982, the Senate passed a food stamp block grant bill that would have allowed Mr. Murdock to implement his idea. The State of Idaho wants to feed our hungry residents and wants to try a new approach in doing so. I can think of no reason why the Federal Government should stand in our way.

I hope the committee will report out the chairman's block grant bill and send it to the floor for consideration as soon as possible. I am proud to state that I am a cosponsor of that legislation.

For some strange reason, Mr. Chairman, politicians think the Food Stamp Program is a popular one. It is not. It is not popular with the people who administer it, and it is not popular with the honest recipient who is forced by circumstance to accept public assistance. And it certainly is not popular with the taxpayer who sees daily abuses in the grocery store. I suppose the only people who really like the program are the abusers.

I support any and all measures that will reform the system or allow the States to try new approaches. It is time for every Member of the Senate to stand up and be counted on reforming the entitlement programs. We can eliminate every discretionary program the Government operates, and it will not solve our deficit problems. It does not take a Ph.D. in economics to figure out where the real problem lies, when you have 50 percent of the budget growing at 15 percent a year.

I am here today, Mr. Chairman, to stand up and be counted on this issue. There are several proposals pending before this committee that are good, honest attempts at doing something about one entitlement—the Food Stamp Program. We cannot reform them all at once, but we have to begin somewhere, and the Food Stamp Program is as good a starting place as any.

Again, I appreciate the opportunity to give my views, and I urge my colleagues to take action.

Mr. Chairman, I would also pledge my continued assistance to your good efforts to make some headway on this problem.

Thank you.

The CHAIRMAN. Senator McClure, you have presented a thought-provoking and excellent statement for which I am grateful. Let me impose one caveat in your statement. The committee may not have looked favorably upon Mr. Murdock, but this Senator looked favorably upon what he said and what he proposed. He had, some will say, some clairvoyance, but I think he was just being realistic and looking the facts in the face.

Senator MCCLURE. Mr. Chairman, I think it is worth noting, too, that some people think in some way this may be a partisan issue. I chose Mr. Murdock's testimony because he was and is in the administration of a Democrat Governor of my State.

The CHAIRMAN. Well, as I said in my statement earlier this morning, the administrators, the people on the ground who are trying to operate this program, are the ones who express to me the greatest frustration, because they are citizens too, they are taxpayers, too, and they see what is happening. They feel that they are a party to it, and yet really do not have the capability to do anything about it because they are hemmed in by so many regulations and instructions.

But one of the worst aspects of the program is the fraud that is growing rampantly now. On Monday, we had three or four investigators from the inspector general's office who have been working in North Carolina at my request for the past several months, and they testified that all they had to do was to go on the streets of any city in North Carolina—and they identified Wilmington, Charlotte, Raleigh, Durham, Winston-Salem, Asheville—they said no matter where it is, the situation is the same; that they put on their leather coats and bluejeans and tennis shoes and go out on the street and make it known that they are in the market to deal in food stamps. And they say within 24 hours, they have got more customers than they can handle.

Now, to the credit of the law enforcement in North Carolina, indictments are being brought at a fast clip. In Asheville, NC, this past Thursday, 68 people were arrested and are being indicted. The circumstances of fraud in which they are engaging are just frightening. The estimate now is—and this is the conservative estimate—that $1 billion annually in taxpayers' money is being—well, stolen—let's use the word. And as long as we have a system that invites—and I consider the way the program is set up now to be an engraved invitation—as long as we have a system that invites such fraud and dishonesty, we are going to have people who take advantage of it.

We have organized crime dealing in what we all now call this second currency. These investigators recited a number of instances where businessmen who had been believed to be reputable are inviting the purchase of automobiles with food stamps. Anything you can purchase with currency, you can purchase with food stamps in the United States, and it is being done.

Senator, I thank you very much for coming here this morning. I look forward to working with you. We both have legislative proposals. Maybe we can put part of mine in yours, or part of yours in mine, or whatever, but it does not matter whose legislation is adopted, just so we take the giant step forward to put an end to the abuses that exist in this program.

Senator McClure. Thank you very much, Mr. Chairman. I cannot help but note that just a few years ago, the average national error rate was over 18 percent. That error rate has been reduced by one-third. It is now about 12 percent. That 12 percent error rate, which encompasses errors, abuse, fraud, overissuance for whatever reasons, as you indicated, does amount to over 10 percent, over $1 billion a year. I think the taxpayers are entitled to some action on the part of the Congress to correct that error rate.

The Chairman. I thank the Senator.

Senator Andrews, I know you join me in welcoming Senator McClure to the committee this morning and we welcome you.

Senator Andrews. I certainly do, Mr. Chairman. It is a privilege to have him before this committee. I served with Jim in the House, and he got over here before I did. We serve on the Appropriations Committee together, and it is great to have him here this morning.

The Chairman. I am glad to have both of you here.

Senator **Andrews**. Mr. Chairman, if I might for a minute, because I have to chair a committee on transportation appropriations, I would like to point out that what you say about fraud is so important. We do not want individuals out there to be defrauding the taxpayers, but even more important, in this case, they are preying on the poor.

The **Chairman**. Exactly.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator **Andrews**. So, while we are concerned about taxpayers and balanced budgets and deficits, when some people take a program that is designed for the poor, and they prey on those who are least able to help themselves, and who have such a desperate need for help, then they are some of the most despicable people around, and I would hope that these indictments show forth those who really are abusing the program, and make the program better for those who truly need it.

But also, Mr. Chairman, as a member of the committee, I share your concern as well as that of the administration and our colleague, Senator McClure, over the viability and the integrity of the current Food Stamp Program. I am grateful for the fact that we are going to have the opportunity as a committee to look over the testimony of the witnesses we have today, including my esteemed colleague from Idaho, all of whom have so graciously given of their time.

As a member of the Senate Budget Committee, might I point out, Mr. Chairman and Senator McClure, that we have to get these adjustments under control, and the entitlement programs are where a good deal of work has to be done. We have taken a look at the appropriated funds, we have slashed them, though many of those are really investments in the future. Some of these entitlement programs have abuses that should be ferreted out; some have to be strengthened. The tragedy is while there are people who are preying on the poor and who are misusing this program, there are other people who need the program that are not getting it. Because of that, I have a number of questions that I would like to ask individuals from the Food and Nutrition Service, Mr. Chairman. These are the people primarily responsible for the operation of the Food Stamp Program. They have been in the administration now for some 3 years, and they could presumably provide us with additional insight as to the effectiveness of the program and those areas requiring our attention.

I would hope, Mr. Chairman, that we can hold a hearing soon at which time these representatives from the Food and Nutrition Service could appear before this committee. I have a number of questions I would like to ask them, and I am sure you would, Mr. Chairman, and others would. I would like to have their comments on some of the information that is being brought up by the witnesses that will appear today.

So if I could, Mr. Chairman, I would appreciate the consideration of my request to schedule a hearing with the Food and Nutrition Service.

The CHAIRMAN. Well, for once, if the Senator will yield, I am a little bit ahead of him.

Senator ANDREWS. The chairman always is.

The CHAIRMAN. No, no. I am just so proud this time. That hearing is scheduled for Wednesday morning, April the 25th.

Senator ANDREWS. Fantastic. I will look forward to participating in it. By then, of course the Food and Nutrition Service will have had the benefit of looking at the testimony that is developed today and other testimony that we put together.

The CHAIRMAN. Great.

Senator ANDREWS. I appreciate it very much.

The CHAIRMAN. Well, I think the point that Senator Andrews made, Jim, is so important, that the real victims of the fraud and abuse of this program are the poor, the truly needy, the most deserving, and this is a point that so many in the media overlook when they criticize efforts to tighten up this program. But the real victims are the people who are being short-changed.

Senator ANDREWS. That is right.

A properly run program, Mr. Chairman, is not a spending program; it is an investment program, because for every dollar of better nutrition that we truly get through to the needy, we save probably $4 or $5 in expenditures for health problems and a whole lot of other things down the line. So even if some people do not care about people, and they worship the almighty dollar, they should be interested in the type of an investment we get for spending dollars in food and feeding programs. But those dollars need to be spent wisely, and that is, of course, why you are holding these hearings.

The CHAIRMAN. Well said.

Jim, we thank you again for coming.

Senator MCCLURE. Thank you very much, Mr. Chairman.

The CHAIRMAN. I think we have got a date with the President in a little while today, but we will get started.

The first panel this morning is the Grace Commission panel—Mr. Richard W. Strauss, project manager of the task force on low income standards and benefits; Dr. Roger Rutz, project leader for food programs, public housing, and computer matching with the task force on low income standards and benefits, and James S. Herr, of the task force on financial asset management.

Gentlemen, I cannot tell you how much we appreciate your coming this morning.

STATEMENT OF A PANEL CONSISTING OF: RICHARD W. STRAUSS, PROJECT MANAGER, TASK FORCE ON LOW INCOME STANDARDS AND BENEFITS, ACCOMPANIED BY DR. ROGER RUTZ, PROJECT LEADER FOR FOOD PROGRAMS, PUBLIC HOUSING, AND COMPUTER MATCHING; JAMES S. HERR, TASK FORCE ON FINANCIAL ASSET MANAGEMENT, AND JEFFREY ALSPAUGH, JAMES CLONEY, AND RICHARD KASPERSON

Mr. STRAUSS. Thank you, Mr. Chairman.

I am Richard Strauss, and I am project manager of the low income standards task force.[1] I have with me task force colleagues that I felt should be present today. They are Jeffrey Alspaugh; Richard Kasperson; Dr. Rutz, who you have met; James Cloney; and of course, Jim Herr, president of Herr Foods, Inc.

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[1] See p. 174 for the prepared statement of Mr. Strauss.

The **Chairman**. Would you defer just 1 minute?

Mr. **Strauss**. Yes, sir.

The **Chairman**. I see a young lady back there at the table.

Sugar, come up here and sit here with me for just a second. You can be a Senator.

You are from Charlotte, and "K" stands for "Katie." [1]

All right, Senator Katie, you help me out now, OK?

You may proceed, sir.

Mr. **Strauss**. Mr. Chairman, I am pleased to address your committee on behalf of the low income standards and benefits task force and the financial asset management task force of the President's Private Sector Survey on Cost Control in the Federal Government.

We have prepared a statement which we would like to introduce in the record, but in the interest of saving time, I would like to read excerpts of the statement, highlighting just the major recommendations which have been referenced in the same, if that is all right with you.

The **Chairman**. That is fine. Your full statement will be included in the record. Thank you, sir.

Mr. **Strauss**. Thank you, Mr. Chairman.

I would first like to discuss the recommendations of the low income standards and benefits task force, which is one of the cross-cutting or functional task forces. It was designed to survey needs-based programs such as veterans pensions, Aid to Families with Dependent Children, medicaid, and most importantly, food stamps.

Three major findings resulted from the task force's analysis. Two stem from the large number of needs-based programs, and the other from the complexity of individual programs.

Our issue on the optimal distribution of food stamp benefits concerns the latter. A number of needs-based programs, including Aid to Families with Dependent Children, Supplemental Security Income, VA Pensions and Emergency Assistance, pay benefits in the form of cash. Other programs, including medicaid, food stamps, and public housing, distribute benefits in-kind or through systems which are intended to restrict the benefits to specific uses.

The use of food coupons in place of cash was intended to ensure that benefits were used for food. As this committee is aware, the intended use has not always been realized. Food coupons are now used to buy a multitude of nonfood items. Moreover, the present food stamp system has resulted in large-scale fraud and abuse, costing taxpayers hundreds of millions of dollars a year.

The Department of Agriculture reported error rates of nearly 10 percent is an unacceptable figure from a private sector viewpoint, and for the most part, is the result of inadequate verification of applicant-supplied information.

Furthermore, when food coupons are trafficked illegally, their value is reportedly discounted by as much as 90 percent. Investigating the abuses of the Food Stamp Program, particularly fraud and trafficking, consumes fully one-fourth—approximately $10 million in fiscal 1981 of the budget of the Office of the Inspector General at the U.S. Department of Agriculture.

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[1] Miss Katie Highsmith, daughter of Mr. and Mrs. James L. Highsmith, 2600 Sedley Road, Charlotte, NC.

The next issue concerns program coordination and is addressed by our combined welfare administration proposal. The multiplicity of needs-based programs has created a situation in which many agencies within numerous departments perform distinct but overlapping administrative functions. This situation has given rise to a cumbersome welfare bureaucracy at State and local levels as well as at the Federal level.

The task force concurred with the 1980 Office of Management and Budget/Interagency Eligibility Simplification Project which reported that what is lacking in the current maze of needs-based programs is an effective method for coordinating the separate parts to better meet people's basic needs.

State administrative costs for AFDC, medicaid and food stamps are reimbursed on a 50-percent Federal matching basis. This open-ended method of funding reduces the incentives to keep administrative costs down. For example, in fiscal 1981, the Federal share of States' administrative costs for Aid to Families with Dependent Children ranged from $20 to $126 per average monthly caseload; for medicaid, from $18 to $91 per average monthly caseload, and for food stamps, from $9 to $94 per participant per month. The States currently receive separate funding of administrative expenses for each of the three programs.

As an example and basis for making a savings proposal, the maximum administrative cost levels per case which would cover 70 percent of the cases administered by all States was used. Setting such a level would encourage States that have higher administrative costs to achieve proportionally greater savings. If implemented, our recommendation could result in an estimated $291 million savings in the first year.

As with the previous subject on program coordination, the third issue on eligibility verification stems from the large number of needs-based programs. The Census Bureau reported in 1981 that over 14.5 million of the Nation's 85.5 million households received one or more selected means-tested public noncash benefits, such as food stamps, school lunch, public housing, and medicaid. Of the 14.5 million households, 3.8 million received two noncash benefits; 2 million received three, and 471,000 received all four benefits.

What is income for one program may not be considered income for another. Basic data supplied and verified in one program must generally be supplied and verified again for another.

Solutions for alleviating some of the problems are contained in the recommendations of our computer matching issue. A review of the 1982 General Accounting Office report entitled, "Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions," and the 1980 Eligibility Simplification Project found that automated data and verification procedures had the greatest potential for reducing incorrect calculation of recipient income and assets.

There are legislative restrictions, however, inhibiting the development of a fully integrated automated data processing system.

Access to certain types of income information, for example, is restricted by law. In order to remove these restrictions, we recommended the following: No. 1, amend the Tax Reform Act of 1976 to allow needs-based program managers to use Internal Revenue Service unearned income and Social Security Administration wage data; No. 2, require all States to collect quarterly wage data which would not only help in the administration of the unemployment compensation program, but also help control fraud and overpayment in means-tested programs through matching procedures; and No. 3, require the submission of Social Security numbers and income tax returns as a condition of eligibility.

Assuming a fully integrated automated system with access to pertinent IRS and SSA data, we made a conservative estimate of net savings of $614 million in the first year, based on the highest cost per match sample and a 25-percent reduction in erroneous payments.

That figure, I might say, includes recognition of an estimated one-time startup cost.

We have had the opportunity to review your proposed bill, Mr. Chairman, entitled, "Income Verification Improvements Act of 1984," and are pleased to note it implements a number of our task force recommendations relative to verification procedures. We will be pleased to assist in any way we can to help in the passage of such a badly needed piece of legislation.[1]

Now, Mr. Chairman, I would like to turn my attention to a discussion of the financial asset management task force's recommendation of the possible use of food stamp coupons for the purchase of surplus dairy products.

The financial asset management task force recommended that a designated percentage of food stamp coupons be marked for the specific purchase of dairy products of the type purchased by the Commodity Credit Corporation—cheese, nonfat dried milk, and/or butter. The percent so marked should be adjusted periodically to reflect market conditions as they relate to dairy support prices.

On behalf of the task force, I appreciate the opportunity to testify and will be happy to answer any questions that you may have.

The **CHAIRMAN**. Mr. Strauss, before I say anything else, as one citizen to other citizens, I want to thank all of you who participated in the Grace Commission work. It is an extraordinary contribution to this country, and I think to the future of the country, and if we are to have stability in the future, all of you who participated in the Grace Commission work are owed a debt of gratitude.

And I might add that Peter Grace is one of the most interesting human beings I have ever met.

Mr. **STRAUSS**. He certainly is.

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[1] Legislation incorporating the Grace Commission recommendations with regard to income verification and similar to the draft bill was passed by the Senate as an amendment to the "deficit reduction bill". An amendment specifically adding the food stamp program to the Federal programs covered by the new verification system was adopted by the Senate on April 12. These provisions were contained in section 991, "Income and Eligibility Verification Procedures" of H.R. 2163, amendments to the Federal Boat Safety Act. The text of H.R. 2163 and additional amendments were added to H.R. 4170 and passed the Senate on May 17, 1984.

The **Chairman**. We had him here some weeks ago, and he is just captivating. He says he does not hear well, but I think he hears everything that is going on.

So I do want to thank all of you and your counterparts.

How many people participated in the whole project?

Mr. **Strauss**. I think we had a maximum of 30, did we not, Jeff?

Mr. **Alspaugh**. Twenty on our task force and 2,000 volunteers on the entire commission project.

The **Chairman**. I am talking about the whole Grace Commission project, 2,000 people. Gee whiz. That is no easy job. I had read your comments, and I was thinking about the study and the research involved. Now, it is very easy to talk off the top of your head and say, "This is good" or "This is bad." But when you have to give the arithmetic, you have to dig for that, and obviously, you have.

During my years in the Senate, I spent many, many hours trying to assemble a position that not only would be right, but which could be understood by the people, and I think that is important. But it is devilishly hard with the major news media in this country failing to give the details of the defects of any welfare program.

For example, some years ago, I had some question about duplication. I thought we ought to check and see how much it was costing just for one duplication that came to mind—that is to say, a family receiving food stamps for the inclusion of children, and the children go to school and get free meals—two a day. I mentioned that in Raleigh, at some function, and immediately, I was besieged with criticism by some of the newspapers, saying I was hard-hearted, I did not want to feed the children, and all that, which is not so.

But I asked the staff to run that through the computer, and do you have any idea what that one duplication cost? Six hundred million dollars a year. So you are not talking about an insignificant amount, you see.

Somehow, we have got to get the story out to the American people that we are not trying to be hard-hearted; we do not want to be hard-hearted; we want to help the truly needy. But we have got to cut out the abuse, the corruption, and all the rest of it.

I apologize for interrupting you, but I just wanted to extend my personal appreciation to you and your counterparts, not only for being here this morning, but for the work you have done.

Now, do the other gentlemen have statements?

Mr. **Strauss**. No, Mr. Chairman. I think we tried to cover the major points in my statement.

Mr. **Herr**. Mr. Chairman, I would like to just make a statement as far as the financial assets management. I am a member of that team; I am not an official of it, not a manager. But one of the things that was brought out here that we were very much interested in, too, is knowing—there are many citizens that are enthused about helping the poor. That is not the problem. They are concerned about their taxpaying dollars going to the wrong thing.

I think the enthusiasm that I have and see here is the fact that if we could put our heads together, it seems to me we could come up with some kind of way of helping these people and also helping ourselves.

As far as the financial assets management group, we are interested in that; that was our main concern, to come in here and work on finances. So we were looking at—my particular job was to work with CCC, and you see the mounting amount of dollars we are putting in to try to help that program. We think that if we could have an increase in food stamps for dairy products—using 20 percent of food stamps that are presently sent out for dairy products—and I would like to go one further. I believe that this is stated in the report here—that is, even if it were a pure milk product, it would still help our dairy industry. The dairy industry seems to be one that we have been spending a lot of money on in support prices and then we get these excess cheeses that we do not know what to do with. It is a complex problem because of the fact that we do not want to ruin the market for our neighbors or the farmers or the stores or whoever we might upset by having these excess dairy products sold too cheaply out on the market. It is very difficult to try to get them to the right people. Then you can take that overseas, and you have the same problem. We do not want to ruin the European markets, and so on, and we have regulations concerning that.

So as a result, we felt, and I think that it is pretty well spelled out in the report of the financial assets management task force—make dairy products, milk, cheese, and so forth, available to the needy via existing stamps to take away our surpluses.

The CHAIRMAN. It is a very attractive proposition, and we will give it full consideration.

Mr. HERR. We felt that if we could get some more food stamps designated for dairy products, as I say, even if it takes fresh milk, rather than just the things that the Government has in stock, you see, that would then keep the Government from having to buy those products, so we have a whole working together process here of helping the poor and saving the Government the expenditure of having to buy that milk and process it into cheese and so on, which is a costly thing for the Government to do.

The CHAIRMAN. Senator Katie, let me tell you what is going on here. This is a little civics lesson.

These gentlemen contribute their time to study their Government and ways to make it stronger and improve it, and they are here, testifying about what they have found in terms of things that could be improved. These gentlemen do not make a penny out of this. They have contributed their time and a lot of time in the past. I thought you might be interested in knowing that.

I have sort of a command performance—the President is going to talk to us about the budget at 11 o'clock. I have some questions here, which we want to be made a part of the record.

I am going to ask Mr. Boney if he will preside over the committee and ask the questions, so that they will be taken down for the record.

Again, I think you will be through by the time I get back, but I want to thank you for coming here this morning and for all of the previous work you have done.

Katie, you stay here as long as you like. If you decide you want to go back with Mom and Daddy, that is fine, but you stay here as long as you like, because you are an honorary Senator for a while.

All right. This is Tom Boney, who is an expert on food stamps.

Tom, thank you very much.

Mr. **Strauss**. Thank you, Senator.

Mr. **Boney**. We will proceed more informally. I am afraid, as the chairman said, all the Senators have a meeting, so I am afraid we will not have any here for a while.

As I understand it, most of you worked on your task force.

Mr. **Strauss**. Yes, all except Mr. Herr, from the financial asset management task force.

Mr. **Boney**. All right. In the low income standards task force, there was a section in there which I will call the optimal distribution of food assistance benefits.

Would you care to elaborate any on the various optimal ways you think might be preferable to the current system?

Mr. **Strauss**. Roger, I think that might be best answered by you.

Dr. **Rutz**. The Food Stamp Program is, as you know, administered by the States and paid for entirely by the Federal Government. It seemed to us that there was really a lack of incentive to keep down administrative costs and error rates in the Food Stamp Program, so we looked at a number of ways to improve the distribution of the benefits. One of those ways was to endorse the concept that passed the Senate previously in the optional block grant solution. We think that as a result of an optional block grant, the States would have a more powerful incentive to reduce abuse in the program, and it would be much more efficient.

We looked at a number of other things in the various reports, for example, on smart card technology and various electronic distribution systems, which hold some promise, but at least at this point, we did not feel that the cost benefits of such a system would be there.

So the basic point, I think, would be to endorse the optional block grant piece of legislation.

Mr. **Strauss**. I would like to add just one further comment. That is the fact that the Agriculture Department has several pilot programs on various means of better handling the food stamp problem, and I would refer to them as a source of information in regard to what might be done in the future to better handle the mechanics of the administration of the Food Stamp Program.

Mr. **Boney**. All right. If I understand the point, the difference is that the money, on the one hand, and the accountability are separated, is what you are saying, that it causes, from a management perspective, a poor situation?

Dr. **Rutz**. Yes. I think any time you have the situation where the Federal Government is spending the funds through State-administered programs, while there are incentives through higher matching costs for computer equipment and things like that, it still leaves something to be desired. It seems to me, that if the State had the option to receive a block grant, and they reduced the error rate, let's say, from 10 percent down to 4 percent, then the remaining funds would be saved, and they could use them for other low-income programs that they wanted to spend it on.

Mr. **Boney**. One of the issues that came up frequently at the Monday hearing really bears on your section on verification. A number of the witnesses were saying that verification is key to getting people legitimately on the program at the outset, so that you are not having to recover money or track them down later on. In your report, that is a good deal of that section, and the part that Senator Helms is interested in with respect to his draft bill, which you mentioned.

Are States going to be able to achieve these verification recommendations with anything short of going to increased computerization? Did you address that?

Dr. RUTZ. Well, I would give a shot at it. I think the key there is the complexity of the various eligibility standards in all the programs makes it more difficult to achieve any sort of verification improvement without computerization. One of the things that I think has been done—and of course, we point it out in the report—the State of Wisconsin has been sort of at the forefront here—is to simplify the eligibility forms for all of the programs, and at the same time, do the various computer matching on income and assets.

So, while it is probably possible for States to improve verification without computerization, it would certainly be much easier if they automated their systems.

Mr. BONEY. All right. For the various members who are in actual businesses, the testimony mentions a 10 percent figure in the Food Stamp Program, which is unacceptable from a private sector viewpoint. What would happen in each of your companies if you had 10-percent error, you had to throw away 10-percent of your product, or whatever.

Mr. HERR. We would not be in business. We could not continue and be profitable.

Mr. BONEY. Is there a general rule-of-thumb in business in terms of what is a tolerable margin of error?

Mr. STRAUSS. I do not believe there is, in that the type of product would account for a variation from one company to another.

Mr. BONEY. Sure; they would differ.

Dr. RUTZ. You know, if you take financial institutions, I think perhaps there is some way to get a handle on that—you know, average loan losses of banks, I think, are around 0.5 percent. So, while they are giving money away and expecting it back, the Government ought to sort of be in the same position there. So a level of 0.5 or 1 percent does not seem too unreasonable.

Mr. HERR. I would say one-half of 1 percent sounds about right for our business, too.

Mr. BONEY. Very good.

At this point, I will be relieved by Senator Zorinsky, from Nebraska, who is here to take over, and I will be glad to relinquish.

[Whereupon, Senator Zorinsky assumed the chair.]

Senator ZORINSKY. Good morning, and welcome, gentlemen.

Mr. Herr, regarding the designated dairy products, how does the system you recommend differ from the concept of distributing surplus dairy commodities, as is being done at the present?

Mr. HERR. Well, the system that we are suggesting would be using more of them specifically on food stamps. I do not think it is specifically designated now in food stamps that a certain amount must be for dairy products. However, the USDA reports that 12 percent is approximately the amount of food stamps that are being used presently for dairy products. But I stated a little bit earlier that if we could increase that a great percentage, or to some extent—and also, I made the statement, and I think it is correct, that if it could even be used for fresh foods, milk, that process, we would then use a lot more milk and dairy products, and so therefore, we would take them off the market; it would be using up more dairy products, so that the Government would not be involved in buying the excess milk from the farmers and then turning it into cheese, and then they just compound their problems.

Senator ZORINSKY. Well, how do you keep that bill from displacing the milk products that are being purchased by the food stamp recipients?

Mr. HERR. We just want to increase it.

Senator ZORINSKY. In other words, you do not feel it would be displaced?

Mr. HERR. No.

Mr. STRAUSS. He wants to increase that 12 percent.

Senator ZORINSKY. I see.

Mr. STRAUSS. Jim, I think you computed that if it went up to 20 percent, there would be a rather significant savings; is that right?

Mr. HERR. Yes. Based on the 1981 figure of $10 billion, it would be about $850 million savings per year, and it would also be giving nutritious food to these people if we had just an 8 percent increase.

Senator ZORINSKY. Well, what would be the drawback, then, to not having designated coupons for other commodities, as you are recommending for milk.

Mr. HERR. Did you say what would be the drawback?

Senator ZORINSKY. Yes.

Mr. HERR. I do not know that it would be a drawback——

Senator ZORINSKY. Do you think that could be projected to other commodities?

Mr. STRAUSS. I think the main problem would be the administration of the multiplicity of different types of coupons.

Mr. HERR. Yes. It would be something that we have not worked out a program, in other words, how you would designate that a certain percentage be used, say, 20 percent be used for dairy products. We have not worked out a program, whether it would be a different color stamp; it could be something like that.

Senator ZORINSKY. And it could be as complicated as sweepstakes and bingo tickets.

Mr. HERR. Well, it would be nice if it was that popular, certainly.

Senator ZORINSKY. Now, Mr. Strauss, you mentioned that the reported error rate in the Food Stamp Program is 10 percent, and indeed, in some States, it is more than that. Could you tell me if your business could continue to operate if it had error rates of 10 percent annually?

Mr. STRAUSS. We have just commented on that, Senator, pointing out that it would probably put all of the companies that we individually represent into a loss situation. We could not exist in such a loss situation.

Senator ZORINSKY. Do you feel the overall management of the program is what needs tightening?

Mr. STRAUSS. We feel definitely that the management of the program needs to look at duplication and overlapping of programs, and that through block grants to the States, considerable work can be done to reduce the cost of administering the programs.

Senator ZORINSKY. Well, you gentlemen are business oriented, and I have had 23 years of meeting a payroll myself. We have spent a lot of time targeting people that fraudulently abuse the Food Stamp Program. But on the other hand, should we possibly spend more time on the management end, controlling that abuse and the access to fraudulence, because obviously, any good business, I suppose, could go down the drain if the management precipitated an invitation for fraudulent abuse of any business.

Are we looking at the proper end, or should we be looking at both ends?

Mr. STRAUSS. Well, we definitely feel that management is a factor. And, as we pointed out in our earlier comments here, the cost of managing the various programs varies considerably between States. In one State, per recipient, it might be as much as $10 for a certain program, while in another State adjoining it, perhaps, it could be $100. And we have made certain recommendations for improving that part of the administration of the program by proposing administrative costs which cover 70 percent of the individuals participating in the program be the standard used in terms of compensating the States for that effort.

Senator ZORINSKY. Well, do you find a uniformity in the qualifications of the individuals that administer the program—would you hire them, all of them?

Mr. STRAUSS. Roger, I think you are close to that. Would you comment?

Dr. RUTZ. We did not really get into much detail on qualifications of the eligibility workers, the people administering programs at the State and local level. We did meet with some people from Wisconsin, with whom I was very impressed, but other than that, we really did not meet too many other people at the State level.

I think one of the issues——

Senator ZORINSKY. That you were impressed with?

Dr. RUTZ. That I was impressed with, yes. But in terms of Federal people, sure, I think they are all very competent. I think the real issue here is that any time you have a program that is a needs-based program that is using a noncash benefit, you just by definition are subject to fraud and abuse. And we all understand the reasons for the program being set up with coupons, but the States, I think, have a far stronger incentive to reduce fraud and abuse and errors if they simply get a grant from the Federal Government, and they then can use those funds to provide for the needy in the food area.

So I think our principal point about the food program could be summed up by simply saying that we would favor an optional block grant-type system.

Mr. STRAUSS. I believe you are familiar with the fact that Puerto Rico is operating under such a system, and as for as we know, quite successfully, based on information we have received.

Senator ZORINSKY. Well, as I understand, now we are not giving them the opportunity to fully test that block grant system, and are trying to revise it once again. I think that any system, regardless of what it is, is only as good as its management and as its experience in being able to carry out the functions of that program.

Mr. **Strauss**. I am sure the task force agrees with you on that point; no question about it.

Senator **Zorinsky**. Well, thank you very, very much gentlemen. Thank you for your input and for all the information you have given the committee.

Mr. **Strauss**. Thank you, Senator. We appreciate the opportunity of appearing here.

Senator **Zorinsky**. Next, we will hear from Ms. Ellen Chestnutt, president of the National Welfare Fraud Association.

Ellen, welcome to the committee. When you make your statement, or answer questions, they inform me that they would appreciate you speaking into the microphone so the reporter can pick up the comments.

STATEMENT OF ELLEN J. CHESTNUTT, PRESIDENT, NATIONAL WELFARE FRAUD ASSOCIATION

Ms. **Chestnutt**. Thank you, Senator Zorinsky.

I am Ellen Chestnutt. I am president of the National Welfare Fraud Association.[1] I am also cochairman of our Colorado Governor's Task Force on Welfare Fraud, which was just formed recently because he was concerned about the situation in our State. And I am a chief deputy district attorney in Colorado Springs. I have been in the DA's office for almost 18 years now.

I would like to thank you and the rest of the committee for the chance to come here. As one who has been involved in welfare fraud for many, many years, it is encouraging to see when there is legislation that helps keep down the chance for the abuse of the program, and I realize what Senator Helms and the rest of you have done through the years in legislation.

Those of us who have worked in the field feel and realize that it has been a stepchild in law enforcement and in social services for many years. Maybe part of this is because, generally, the people who manage the social services are trained in services and not in law enforcement, and in the prosecutor's office, many times, welfare fraud is not given a high priority, because crimes of violence do not keep up with the staff they have, and therefore welfare fraud takes a back seat.

My comments on these bills will be directed just to the fraud prevention part. We have seen, and I think perhaps most people would agree, that the fraud prevention is of vital importance, because keeping somebody off of welfare is much better than trying to get them off later or trying to recruit money, as you were saying a few minutes ago. However, there will always be fraud in a program. There will always be cheating in any of our programs. I think if we do not pursue an attempt to convict some of the aggravated cheating, we will encourage other people to cheat, and by convicting some, we will deter others and keep them off.

Commenting on specific provisions in the bill, the photo identification and countersigning the food stamps, we think would be a big step forward. However, we are aware that there is an ID card now for food stamps, and, generally, I think I can say this across-the-board: It is very rare that any merchant or store operator will ask for the identification card when they are there, so I think going along with a photo identification card, you would need to require the merchants to have the photo ID card shown at the time the stamps are being purchased. Otherwise, as now, it might not be used at all.

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[1] See p. 179 for the prepared statement of Ms. Chestnutt.

I have heard some comments from State directors that the cost of the photo ID card would not be worth the benefits involved. I understand some States have done it, and it has proved worthwhile. However, I would point out as perhaps another alternative that might be a little bit cheaper, is that all States, I believe, have photo ID cards. If a photo identification were required at the purchase of food stamps, whatever it was, that might be an alternate along with the present food stamp identification part. For example, most people—many people—have driver's licenses. Some States have a photo on the driver's license. But even if you do not, I believe all States have a photo ID card for other people that do not have driver's licenses who do not qualify. So a State photo ID card might be a substitute for a specific photo ID card for food stamps. But we do think it is a good idea, and we do think it would help.

We concur wholeheartedly with setting the food stamp purchases in even dollar amounts so there is not any change given back. We feel that this will prevent misuse of the food stamp money.

There is another area that we have seen that does not get handled very often because it is hard to detect, and that is where people can go in and purchase something with food stamps, perhaps the most expensive item in the store, whether it be a frozen turkey or meat in the area of $20, $25, which is certainly more than just a dollar's change; leave the store, and then come back in a little while and return it for cash. This is another area that could be looked at.

Tax intercept for fraud restitution, we think would be one of the greatest things for the restitution. I think it has been the best thing for the child support program as far as getting restitution back, getting child support arrears, and I think we could do the same thing on the restitution for fraud collections.

The next comment is on cross-matching dividend and income information. We feel that any of the computer matches can be very worthwhile and very time-saving, and that one, too, we would like to see.

I have heard comments that this is a small area, and it is questioned how many of the recipients actually do have dividends or do have other income that is not on the wage. That is an unknown. We do not know. I know that I personally have filed several cases in our State, in our county, where it has been an area. One is pending right now. The man was on food stamps and not reporting any income, and it was retirement income, and he was getting $13,000 from the city retirement. In Colorado Springs, that is big money; maybe not in Washington. And we have had others who have been drawing retirement income and dividends that have not been reported—and they are not poor people. Again, we are not looking at poor people; we are looking at people who are cheating the system.

However, many of us feel that the very, very best computer match is the wage match, and we are aware that that is now mandated by the Federal regulations; it must be done. However, if something is not done properly, it does not produce the results you hope.

I know that in our State—and it is not unique to our State; it has happened in other States—they are matching the wages with the recipients, but they are not doing it for the same time period. So you are taking one time period for your wage match, which is usually two quarters back because the employers report it late, and you are matching it with people who are on food stamps right now. And you have a gap of several months, which means the match really is not that good. You have discrepancies, and you have hits, but they are buried among all the people who are on legitimately; people who were earning good money back when the wage match was run were laid off, and then come on food stamps legitimately, and they show up as a discrepancy in the program.

So I think it is not just having the match, but seeing that it is done right. I know that it was done that way in Texas, too, and they got it corrected. We still have it with two different time periods in Colorado. If it is done right, I think that would be one of the best matches there is.

Fraud detection offices—whether or not a separate unit or another set of offices are set up to do this, something needs to be done to ensure that the tools we have get used. And I think whenever there are staff shortages in social services, the investigators tend to come out first. Some places have the investigators in the district attorney's office, which is what we have in our division. But I think you have a problem here. Usually, directors are trained in the area of social services, and that is their basic area, and they are not trained in law enforcement, or they are not oriented to law enforcement at all. There are many district attorney's offices that have not had a food stamp referral, fraud referral, for years, and we know that there are fraud cases out there, and we know that these are the areas that the professional cheaters will gravitate to when they know there is not that enforcement there.

It would appear that one of the good incentives has been the 75-percent funding for food stamp prosecution, investigation, and the problem is that we would suggest that perhaps that could be handled directly through the localities that are going to be doing the work, or that in fact do do the investigation. If that funding or that program gets bogged down at the State level, it does not help the people at the local level to get the program going.

And many times—I would like to make it clear that there is a distinction between error and fraud. Error rate is one problem, and fraud is another problem. However, it is not uncommon for people to think that agency error in a case will wipe out the fraud; it will not. You can have both there. But many times, the fraud case is going to get buried, maybe because they do not want all the agency error to come to light, or they feel it can be handled better another way. But then, sometimes, that agency error turns out to be an employee fraud case. This is an area that should not be overlooked. I know we have filed on numerous employees—who knows better how to beat the system than those employees that do not have the integrity—we hope everybody does——

Senator **Zorinsky**. Excuse me. You indicate you are sincere in your desire to investigate and prosecute fraud cases, but we still hear reports from various areas that district attorneys are not interested in many areas. Do you have any suggestions on how we could create a greater incentive for State and local prosecution efforts?

Ms. **Chestnutt**. I think that is something that we can go around and around on. There are many DA's that have been reluctant to take fraud cases, and there are two reasons. One is that prioritywise, they give priority to crimes of violence, and another reason is—and this is one we are working on in training—that if the cases are investigated by social services employees who do not have investigative or law enforcement training and background, the cases do not come prepared in any way to go to court, as cases from the police department.

So what we are working on in our State, and through the National Welfare Fraud, we are trying to get better training for the fraud investigators in the welfare department, and we would like to see those investigators specialize in that area of welfare fraud, so they could get to know it. There are many times the investigators there will do welfare fraud, they will do home visits, they will do child abuse, child welfare, they will do custody evaluations, and they do not have any expertise in the fraud area. The same thing applies to the DA's. They handle all kinds of cases, and we try to get so that a DA will get specialized in welfare fraud. If they cannot be full-time on it in a bigger place, at least one person takes the case all the time, which is what we have in our area.

But the reason I put it in my statement, some DA's have not had a single fraud referral for years, and it is a problem. And they will take them, and they will work on them, and training is one of the things we are concerned with.

It has been mentioned before about the verification of intake. That is real crucial, and we would like to see things done thoroughly at verification. A lot of headway has been made in training. We think that when the intake people are aware of the importance of what they do, it can help, too. And we would also like to see that all of the applications be signed under oath, which is another suggestion that our group would be making. That involves no cost; just adding another place on the form. The AFDC applications must be done under oath, and we would like to see the food stamp applications be done that way, too.

If there are other problems with the cases, whether there is agency error in it, whether there are witnesses you cannot get, or whether you have problems proving up the regulations, perjury is a charge that is more cut-and-dried; did they misrepresent material allegation under oath on an application that is being used. And we would like to see that all of those initial applications be done under oath; there would be no cost on that.

Addressing the adult responsibility, we are in favor of having all the adults sign the forms. It is a pattern that comes to light if you have AFDCI or AFDCU, where you have the family on, the spouse who applies is not working, and the spouse who is working says, "I didn't know I was to report, because I have not been through that," and the other spouse says, "Well, I didn't realize my husband was going to work every morning." It is just another loophole to tighten up to have both of them sign it.

Senator ZORINSKY. Where do you find your best sources of information or leads to pursue and prosecute fraudulence in the Food Stamp Program?

Ms. CHESTNUTT. There is no question that most of the leads on the recipient fraud right now come from the wage match in the AFDC program, which includes food stamps. We have food stamps included in the AFDC fraud, and that is from that wage match.

We have many other sources—some from the police, private citizens, whatever—but from that match and the technicians within the department.

Senator ZORINSKY. Are your records sophisticated enough and flexible enough to continually keep track of dividends, interest on investment, and income on owning real estate property, in addition to any other—there are so many sources for retired people—and I do not say this as a general rule, but there are many people who receive sources of income from dozens of places. Can you actually keep track of everybody's income to that extent?

Ms. CHESTNUTT. No way. Of course, we in the DA's office cannot. National Welfare Fraud can look at those banks that are computerized that would have anything that way or anything that comes in IRS—no.

Senator ZORINSKY. You do not have access to any information like that?

Ms. CHESTNUTT. No, we do not. The information through IRS would probably be the best source. We feel that any computer match——

Senator ZORINSKY. The most often heard comment, and you have probably heard it dozens of times, and I as an elected official continually hear it about the Food Stamp Program from people back in my State when you discuss food stamps. Maybe it has just become symbolic to the extent that it is really less actual than reality. I'm referring to stories about people pulling up in their Cadillacs and getting out in their mink stoles and going into the grocery store and presenting their food stamps. When people in the line see them do that, we as their elected officials naturally hear from them. Do you think that these stories are being told over and over about one or two isolated incidences, or do you think that they have some basis in fact?

Ms. CHESTNUTT. Well, I think we all hear those stories, and I think one thing the Food Stamp Program has done is by having these things separate and apart from cash, is put it in front of the public, because the public in grocery stores see who is using food stamps and what they are buying.

The problem is there can be people who are invalids, bedridden, cannot get out, and they have a proxy—which is legal—who does their shopping for them. So if you see somebody get in a Cadillac and drive away, that may be somebody working with Silver Key or working with something else, or being a proxy for an invalid who cannot get out.

Senator ZORINSKY. Who may not necessarily be the individual who is accepting the food stamps.

Ms. CHESTNUTT. Right. One never knows. However, as far as what kind of fraud cases, I think one misconception is, and we hear it in the DA's office, that we are just picking on the poor people. We are not picking on the poor people. We are looking at people who have deliberately committed a crime, because it has to be an intent to commit a crime to violate the Federal laws or the State laws, whether it be theft or specific food stamp violation. And we have cases where they have money. Welfare fraud defendants are not different than any other kind of defendants. Some have money, and some do not have money. Some defendants on robbery cases, embezzlement cases, can pay it back; some cannot.

But we think that there should be a better effort on pursuing the restitution once somebody has been convicted. We had one case last year where the recipient, when she pled guilty and came up applying for probation, paid $6,000 in cash up front toward her restitution. We have had others who have paid several thousand at a time to show their good faith or whatever, and we have others that cannot. I do not think you should lump welfare fraud dependents in the category of poor people.

One I just mentioned was getting $13,000 in retirement, plus low-income housing, plus drawing his food stamps and not reporting it.

We would like to see mandatory reporting of fraud cases to the prosecutor. This would take care of the argument that DA's will not take the cases, and it would see what happens. But there are a lot of cases that just do not get reported there. Maybe it is better to go for reimbursements, some directors think. The incidences of fraud are certainly going to be much lower if there isn't any fraud reported as far as statistics are concerned. We find that many of our defendants on welfare fraud are involved in other crimes. The ones that we have had go to the penitentiary for welfare fraud have been also convicted of selling heroin, kidnapping, rape, sexual assault, forgery, and there needs to be a better coordination between the two, because if you have a criminal element on one side where the police are dealing with them, many of them, whether they be on crimes of violence or drug cases or whatever, are also cheating the system over here to get their extra money. I think we need better communication.

One of our other suggestions was that it be allowed that when there is a felony arrest warrant for somebody who is receiving public assistance, and that person cannot be located, that the information of where the check is being mailed can be released to the law enforcement people, so you do not have one arm of the Government concealing somebody where there has been probable cause found for felony, and the other arm of the Government, law enforcement, looking for that person. I think that would help the whole overall picture.

Senator ZORINSKY. Do you think laws concerning abuse in the Food Stamp Program should be stronger, or do you think they are sufficient as written, or do you think the penalties should be increased, the fines increased? Do you have any recommendations on that?

Ms. CHESTNUTT. I think we have strong laws against theft; we have specific laws on food stamp fraud. I think sometimes the problem is getting the information and discovering it.

Fraud prevention is what we should all be aiming at, and verification is where a lot of that starts at the beginning. But once the program moves along, we would like to see better use of what is there. As I say, it has been terribly frustrating to see this wage match be mandated; then to see it be implemented and being done, but being done in such a way that it really is totally ineffective, to compare two different time periods, when the computer could be——

Senator ZORINSKY. Well, I was wondering if just human nature would dictate that a lot of obedience to the law is concern for the payment that would have to be made if one is caught breaking the law. I know a lot more people stop at a stopsign if there is a cruiser sitting there; or even a better example would be that in my hometown, they used to charge $2 for a parking meter violation. People figured out it was cheaper to pay the parking meter violation than put it in a parking lot and pay $4 for the parking of their cars. So, when they raised it to $20 from $2, people are now very religious about putting coins into the parking meter. That is why, from that aspect, I am wondering is there anything we can do in the Food Stamp Program to mentally create a mindset against abuse, or minimize abuse and fraudulence. The strength in the future of the Food Stamp Program, regardless of what we all do, is how the general public perceives the equity in the program and how they feel their tax dollars are being used or misused. I do not think the general public of this country will oppose helping the needy of this Nation through this type of program. But I think they are entitled to a fair shot as far as how that money is spent that they send in as taxes, which are used in the Food Stamp Program. That is why I think efforts such as yours, and this committee's attempt to create oversight in this area does go some way in trying to bring about that consensus of equity and fairness in who receives food stamps and who should not receive food stamps under this system.

Ms. CHESTNUTT. There is a philosophy that maybe needs to be worked on, too. We think it is a shame when we see some departments that feel it is a black mark on them if fraud is discovered. Whereas, I think many of the public feel and should feel that when you do have fraud that is handled, no matter how you handle it, whether you prosecute it or whether you resolve it, that you are taking care of tightening up things and running a better ship, and you are taking care of the problems that you have there. But if there is none, and it is covered up, then this is the problem.

There are statutory requirements for people getting probation must be ordered to do certain things—pay court costs, pay restitution to victims who have been injured or whatever—and restitution would include the food stamp area.

I think that people who cheat on the system and get more than they are entitled to, which is taking away from those who really need it, should be accountable for their actions. If they can afford to pay it back, which many of them can—many of them that we catch are pulling in more money a month than the employees in our office—but if they cannot afford to, if they are still on assistance, there is a provision—in our State, it is mandatory, in fact—for a deduction from their grant to help repay the restitution. If they are unable to pay anything at all, our courts are going to community service. So that they have something that they are putting back into the system for which they have taken out. We think that is very helpful, too. Otherwise, you have a system where, if somebody gets away with it, fine; they get a lot of money. I file cases that are $10,000, $15,000, $20,000 cases, so they are not just $5 and $10 misdemeanor things. If they get away with it, fine; if they do not get away with it, they just have had an interest-free loan they have to pay back. Many of our judges are giving community service on top of the restitution.

Senator ZORINSKY. Well, do you think the penalty is severe enough for those getting away with doing that?

Ms. CHESTNUTT. If it is handled right—one of the comments in my testimony is the correction we would like to see in the way the food stamp amount is figured. If you have a woman who is drawing AFDC and food stamps both, and she is caught cheating, and she is still on the grant, there will be approximately 10 percent deducted from her AFDC grant to apply toward her restitution. But as her AFDC grant is reduced 10 percent, her food stamps go up. So all you are doing is switching where the money is coming from, and she is not getting any less. I think those kinds of things could be corrected.

Senator ZORINSKY. The violation, then, itself, the penalty in the reduction, is not taken into account as the reason for the lesser——

Ms. CHESTNUTT. Unless she gets community service on top of it. But we certainly would like to see that when there is fraud discovered, there be a mandatory reporting of the law enforcement people, so that it could be pursued that way. We think that would be a big help.

Senator ZORINSKY. Well, I think a change in the law on how those numbers are evolved would be very helpful, also.

Ms. CHESTNUTT. We feel that through the years, it has been shown if the fraud investigation and prosecution is done properly, it itself is cost effective. It is cost effective in the restitution alone, but there also is the cost avoidance, which is beneficial, and then there is, as you mentioned, the accounting to the public, who is paying for it. We would like to see a backing of the Congress.

Senator ZORINSKY. Thank you very much. That was a very encompassing presentation, and I want to thank you.

Ms. CHESTNUTT. I appreciate the opportunity.

Senator ZORINSKY. Thank you.

Next we will hear from Ginny Mustain, national board member of the National Eligibility Workers Association, and Dr. Donald Roark, commissioner of the Mississippi State Department of Public Welfare, in Jackson, MS.

Thank you for coming. If you want to summarize your statements, we will put them in the record as if presented in their entirety. That might save some time, and we would be able to get more into the question and answer part of it.

Go ahead, please.

STATEMENT OF VIRGINIA MUSTAIN, NATIONAL BOARD MEMBER, NATIONAL ELIGIBILITY WORKERS ASSOCIATION, ACCOMPANIED BY BRENDA CRAWFORD, ADMINISTRATIVE ASSISTANT, WEST VIRGINIA DEPARTMENT OF HUMAN SERVICES

Ms. MUSTAIN. Thank you.

I am Ginny Mustain. I am employed by the Prince William County Department of Social Services.[1] I am an eligibility worker. This is Brenda Crawford. She is an administrative assistant with the West Virginia Department of Social Services. Both of us are on the board of directors of the National Eligibility Workers Association, and it is on their behalf that we are here to testify today.

In preparing our testimony, we requested from our members their perspective on the Food Stamp Program, and particularly USDA's proposal for fiscal year 1985. As usual, we received a litany from them regarding change after change, and interim rules, and interim final rules, and final final rules, and so forth and so on. However, the overwhelming response from them was that the current food stamp policy is the most complex and confusing policy of any of the programs that they administer, and despite this, or because of it, the majority of the members expressed a belief that to ensure the integrity of the program, a modicum of change is needed. I think you will find that that is a little strange from people working in the Food Stamp Program, to say that they want change, and yet our membership feels that there are certain provisions that do need to be simplified in order for us to preserve the integrity of the program.

The issues that we discussed in relation to USDA's proposal for this year are three: the error rate sanction, categorical eligibility, and mandated work fare.

The one I think is of primary importance is the error rate sanction. We cannot support a 3-percent error rate at this point. We feel that the program is completely confusing; that it is very complex, it is very ambiguous, and unless we simplify the program, we cannot get to 3 percent. We feel that we can get to the 5 percent that we are mandated to get to by fiscal year 1985, and feel that we ought to stay at that unless Congress and USDA can simplify the program.

Last year, we felt that USDA's proposal for fiscal year 1984 was the first attempt by any Federal group to try to simplify a program, and we backed a lot of their provisions last year. One of the things that we supported last year was the household definition. We feel that we can reduce errors if we can simplify the household definition. Last year, they suggested that it would be mandated that all persons living at the same address except for elderly individuals who purchase and prepare separately or persons who would otherwise be disqualified by the actions of others be considered as one household. We support that in that it simplifies the program. However, we do take into consideration the fact that our cases indicate that more and more families are having to move in together because of a loss of low-income housing in the area and their inability to afford to live on their own.

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[1] See p. 184 for the prepared statement of Ms. Mustain.

We feel that to reduce errors, we do need to simplify the household definition. However, we do need to at the same time recognize that people have to live together in today's society and consequently, increase benefit levels to accommodate that.

The second item that we feel would reduce errors is the expedited service area. The limited time required for a State agency to make a determination of a household's eligibility for expedited services impedes the ability of the agency and the worker to verify important information before making its decision. I am sure that everyone recognizes that today, the current law requires that benefits be issued within 5 days, regardless of whether the eligibility worker has been able to verify any of the information submitted by the recipient.

We feel that based on the GAO statistics of 1982, that 31 States are processing their regular cases within 15 days and that all other remaining States are able to process within the 30 days required by law; that it is no longer necessary to mandate that expedited services—that it be mandated. We feel it should be a State option now.

We further suggest that even when optional, verification of income and resources should be mandatory. We feel that even within the 5-day time period, clients should be able to verify their income, the income that they receive that month. And if we mandate that, then there should be a reduction in fraud. We will not be processing cases without accurate information.

The third area that we were——

Senator **Zorinsky**. When you do receive a lead that their income is in excess of what qualifies them for food stamps, then the burden is on them to come in and prove to you that——

Ms. **Mustain**. When a client comes in to apply, we ask them what their income is for that month to determine if they are eligible for expedited services. As long as it is under $150 a month, they are considered an expedited case, and we are obligated to approve that application and see that they get their benefits within 5 days.

Senator **Zorinsky**. Do you take their word for that?

Ms. **Mustain**. If we can't get pay verification, yes. The only things that we are required to verify are their identity and their residence, and the rest, we take on verbal word. We try to verify the income if at all possible, but within 5 days, particularly if you take an application on a Friday, and you have to be sure that they get their food stamps by——

Senator **Zorinsky**. What is the penalty for their perjuring themselves by misleading you into thinking——

Ms. **Mustain**. When we find out that they did not tell us the truth, then we attempt to prosecute them for fraud.

I was listening to Ms. Chestnutt a moment ago. Most of our workers will tell you that it is damned hard to get a case into court. We are lowest priority in the court system. Burglaries and rapes and murders and the rest, naturally, are much more important to the Commonwealth's attorney. However, we feel that welfare fraud should be considered an important part of their job, as well. At one point, we had over 600 cases sitting at the Commonwealth's attorney's office, and not a thing being done with them.

Senator **Zorinsky**. Six hundred?

Ms. **Mustain**. Six hundred—and that is in one county.

Senator ZORINSKY. Dollarwise, what do you think that amounted to?

Ms. MUSTAIN. I haven't the faintest idea. I really do not. My colleague here may have some better statistics.

Senator ZORINSKY. But it would be substantial?

Ms. MUSTAIN. Oh, I am sure it is. The second point in relationship to what Ms. Chestnutt was saying a moment ago, even when we do get them to court, we do not seem to get very harsh sentences. We have had clients who have been told, "Yes, you are guilty, and you must pay restitution; if you get a job, be sure you pay back the county." Well, that is going to lead the individual to either not get a job, because they know they do not have to do anything, or they will, and then we can only collect 20 percent or whatever from their food stamps if they are unwilling or say they cannot pay us back any other way.

Senator ZORINSKY. I see.

Ms. MUSTAIN. So it is not that we do not pursue fraud. It is just that we cannot seem to get——

Senator ZORINSKY. Do you think the penalties as they are written today are tough enough?

Ms. MUSTAIN. No, sir.

Senator ZORINSKY. That probably varies as a misdemeanor from State to State, or district to district.

Ms. MUSTAIN. Correct.

Ms. CRAWFORD. In West Virginia, it has to be over $500 before it is considered to be a felony. And at that point, we still have some judges who will say, "Yes, you will have to pay us back when you are able to, but you will not be disqualified from the program. We will just forget that part of it," even though that is part of the food stamp regulations.

And we cannot, as a State, violate a court order and disqualify the person.

Ms. MUSTAIN. The point we are trying to make today in testifying is that there are, we feel as workers, built-in errors that we have no control over, and unless those built-in errors are removed from the program, you are going to continue to have errors, and with errors, you are going to get fraud and abuse.

Workers primarily—all the ones that I have ever met—take a tremendous amount of pride in what they do, and want to ensure that only those deserving and only those in need receive what they are entitled to receive.

If the policy continues to be so complicated and so ambiguous, we are going to find that the errors will continue. We are also going to find that fraud will continue, because the worker is going to be hindered in detecting and preventing that fraud from occurring in the future.

If you have any questions, we will be happy to respond.

Senator ZORINSKY. Dr. Roark, do you want to make your comments, first?

STATEMENT OF DR. DONALD B. ROARK, COMMISSIONER, MISSISSIPPI STATE DEPARTMENT OF PUBLIC WELFARE, JACKSON, MS

Dr. ROARK. Yes, Mr. Chairman.

I am Donald Roark, and I am commissioner of the Mississippi Department of Public Welfare.[1] I also have the privilege of serving as chairman of the food stamp committee of the National Council of State Public Welfare Administrators.

I appreciate very much the opportunity today to be here on behalf of 20 percent of Mississippi's population who are food stamp recipients, and on behalf of the 50 chief executive officers responsible for administering the Food Stamp Program.

Since the 1977 reform of the Food Stamp Act, numerous efforts have been made to combat fraud, waste, and abuse in this large, complex, national program. The significant attention and high level of resources devoted to eliminating these problems have significantly improved the ability of Federal as well as State administrators to deter and to detect program violations. In addition, the success that has been achieved in this area has begun to improve the image of the program in the public's eye.

No single change or requirement can be given all the credit. What is happening is the cumulative effect of sophisticated and innovative systems by the States; information processing, public education and awareness, and cooperation between Congress, the Federal Government, and the States to ensure that program benefits are used as intended by Congress.

I come today, Senator Zorinsky, urging this committee to make as few changes as possible in the Food Stamp Program. What the Food Stamp Program needs and deserves right now most of all is a period of rest from extensive legislative and regulatory reform.

All of us will admit that any program—not just the Food Stamp Program, but any program—can always stand improvement. However, it is my personal judgment, and I believe, the combined judgment of the State administrators responsible for the Food Stamp Program, that if we come along and add to the program's administrative requirements at this point in time, that it would prevent us from getting the most out of the measures already enacted by Congress and that are in various stages of implementation today.

Nevertheless, we also believe—and I might add, very strongly—that something can and should be done to alleviate certain problems which cause unnecessary administrative costs and burdens and which have been proven to be cost ineffective.

The more I see of the Food Stamp Program, the more I am amused at the transformation that has taken place. I went back and I reviewed the first food stamp manual in Mississippi, dated 1965. It had 40 pages. Then I reviewed the 1984 manual. It consists of three bound volumes, 978 pages. So I think if you looked realistically at the program, you would say what a change from simplicity to unbelievable complexity.

More than ever today, the legislative and regulatory mandates are to reduce errors, identify ineligible recipients, and achieve economies. "Quality control" is just another name for "expenditure control." This has rapidly accelerated in the last few months.

In the past year, over 30 regulatory changes were mandated by Food and Nutrition Service in the Food Stamp Program. There have been 90 changes in the last 30 months. And if you put the pencil to that, you can see that is an average of a regulatory change every 10 days in the Food Stamp Program. Such piecemeal implementation creates continuing program turmoil for the administrators, as well as among the recipients, and it results in increased errors.

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[1] See p. 215 for the prepared statement of Dr. Roark.

I guess I could say that State and local administrators, food stamp caseworkers, and eligibility workers—call them whatever you will—as well as recipients today are frustrated; they are confused, and are inundated with a lot of unnecessary paperwork. It is just truly an administrative nightmare, and I know whereof I speak.

It is a needless jungle of paperwork, much of which is cost ineffective.

We believe that the basic design of the Food Stamp Program is sound with a few exceptions. I want to mention those exceptions and highlight them.

First of all, we think that there has been legislative and regulatory overkill.

Second, there is unnecessary paperwork that is cost ineffective; and third, mandatory monthly reporting and retrospective budgeting, and then the quality control or error rate measurement system and the sanctions that are applied against these errors.

I guess the ultimate cost of this continuous change is the damage it does to the Food Stamp Program in the eyes of a concerned public, who see it as a program permanently in turmoil and running wild and out of control.

I believe what the Food Stamp Program needs and deserves now is stability—a period of rest from further legislative and regulatory reform.

Let me make just brief mention of monthly reporting and retrospective budgeting. I am sorry that Senator Helms is not here, because I know he played a leading part in the enactment of House H.R. 4252 in November of this past year, which provided States with some more flexibility in seeking waivers from monthly reporting. At that time, over 30 States had asked Congress to make MR/RB a State option, rather than a mandatory Federal requirement.

While Congress did not go that far, the new legislation directed USDA to implement the new waiver authorities immediately before MR/RB became effective January 1, 1984; also, Congress explicitly directed USDA to cooperate with the States and approve monthly reporting waiver requests as long as the requests were on a reasonable basis.

Now, several States have been notified by the Food and Nutrition Service that they are out of compliance, despite the fact they have made reasonable requests under 4252. Now, those States that have implemented MR/RB are having great difficulties, and generally, Senator, MR/RB, under the expanded waiver authority granted last November, is not cost effective. It is increasing errors, and it is creating havoc among recipients.

In Mississippi, we implemented on January 1, 1984, an FNS-approved waiver; approximately 35 percent of all of our food stamp households are on monthly reporting.

At the last meeting of our State welfare board in Mississippi, a very large group of rather irate food stamp recipients were present, and they demanded that our State welfare board cut out this nonsense of monthly reporting and retrospective budgeting in the Food Stamp Program. So there is a recipient outcry against this situation.

I have attached to my testimony a resolution signed by 38 of the States—perhaps others would have signed if they had been present at the meeting when this was discussed.[1] This resolution simply is requesting Congress to make MR/RB, Senator, a State option.

I think the States are saying this, those of us that administer the program, "We are asking to be trusted with the flexibility to use monthly reporting where it would be effective, and also to direct our resources toward other management techniques which other approaches are much more likely to be successful in reducing errors and cutting costs of the program."

I think that MR/RB is a super example of a management technique to reduce costs and errors; even though well-intentioned when it was enacted, it has just not worked out. We feel that MR/RB should be made a State option where it could be used only where it would be cost effective and feasible.

There has been quite a bit of discussion today concerning quality-control or error rates, and you are very familiar, as all of us are, that in 1982, Congress adopted a graduated error rate reduction system for food stamps. The sanctions that would be and are being levied against the States for failure to reach the error rate targets will cost the States millions of dollars—millions of dollars that ought to be used, Senator Zorinsky, for providing services to citizens of these States.

State welfare administrators feel very strongly that financial penalties are really not needed to spur States toward better program management. Good management, well-run and cost-effective programs are in our best interests also. Considerable State resources have been and they continue to be invested in program improvement. However, if fiscal sanctions are to be included as an integral part of the Food Stamp Program, we need a reliable and statistically valid means of assessing errors, and we need it immediately.

The current quality control system, used to measure program errors and apply sanctions, has a number of major weaknesses. First of all, it does not produce valid estimates of real errors. Second, information is not provided in a timely fashion so as to permit effective corrective action. And third, quite often, States that have performed well are penalized.

As State administrators, we have prepared some legislative language that we believe would put the quality control system on the right track, by creating a uniform error measurement system for medicaid, for AFDC, and for the Food Stamp Program. Our proposal would require a joint study by the Secretary of Agriculture and the Secretary of HHS, concerning the quality control system. While the study is being conducted, we would propose the suspension of all fiscal sanctions. Following completion of the study, report and comments, regulations would then be developed for the Food Stamp Program, modifying the current system in favor of a uniform quality control system for income support programs. If errors are to be reduced and controlled, we must be certain that errors are properly defined, that they are identified, and they are accurately measured. The current system does not do that.

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[1] See p. 220 for a reprint of the resolution.

I was somewhat amused with the discussions here in some of the groups that have testified today, and was particularly interested in the private sector comments, when questions were asked of them concerning error rates and quality control in the private sector. As I recall, they were very, very evasive in their answers, as you might suspect.

You know, I think we need to think about error rates. We need to think about them realistically. Let me mention to you some errors or cost overruns in an area that you are probably very familiar with—the defense area—involving quite often private contractors, the private sector primarily.

The Boeing Cruise Missile had an overrun or error rate of 21 percent; the Chrysler M-1 Tank, 36 percent; General Dynamics DIVAD Gun, 60 percent; the *Trident* submarine, 70 percent; the F-16 Fighter, just 71 percent error or cost overruns in that; the Hughes helicopter, 76 percent; the Titan missile, 117 percent.

So when we talk about quality control and errors, we need to think of it not only in terms of the private sector, but also in terms of the service sector. Quite often, there is a difference—and I come from an industrial background, also, with over 20 years' experience in a major southeastern manufacturing company, and I know how important quality control is. It is true that industry does not have specific quality control error rate targets because the market decides that. They are product-oriented, whereas the Food Stamp Program is service-oriented. So it is very difficult to compare apples and oranges.

I am going to try to summarize very quickly the rest of my statement.

Senator ZORINSKY. Are you saying that a known service such as the dispensation of a food stamp to a recipient is comparable to an experimental tank that nobody knows, it being the first-time run, without any prior experience or knowledge on how that tank has been put together before?

Dr. ROARK. No, Senator. If I left that impression, you misread what I was saying. But in one sense of the word, with the continuing changes we are having, it could be stated that it appears that the Food Stamp Program is still in the pilot or testing phase, also, just as some of M-1 tanks are.

Senator ZORINSKY. Well, you may be right, but it should not be that way, and that is the purpose of this hearing.

Dr. ROARK. I agree with you, and that is why we are asking for a period of stability, so that some of the good things that have already been enacted can begin to take effect.

Senator ZORINSKY. Show me a company that can afford to continue to pay those kinds of cost overruns, and I will show you a company that is going broke—and that is the one called the United States of America. That does not justify all those overruns that you cited, and of course, compared to those, if you have ever built a nuclear powerplant, these others are peanuts compared to what happens to the cost overruns there—and a lot of those are on hold now; a lot of them have not been completed because of those costs, and a lot of them are going broke, and their ratepayers are having to have their electric rates doubled and tripled, just to pay the bonds.

So, what you are saying may be true, but of course, that is not acceptable. We have got to get those rates down, or we all go broke.

Dr. **Roark**. I want to mention one other thing here that has been alluded to by several. You know, eligibility workers are being trained somewhat more in investigative techniques, but their prime job and responsibility is not law enforcement investigation. Their responsibility is to determine eligibility in accordance with the rules and the regulations. But nevertheless, eligibility workers today cannot make the lateral contacts to verify information without the recipients' approval.

Now, listen to me, Senator. The quality control worker, a different worker, comes along some months later; they can make all the contacts in the world with banks and others to verify information, and they find that the eligibility worker, who could not make the contact, did not verify a bank account. Therefore, this is an error, and we have to pay the price. This is not fair, and it ought to be changed. It definitely ought to be changed.

Let me mention one other thing. I am much more familiar with what is taking place in my own State. In Mississippi, we rank well above the national average, according to the USDA report, in the area of fraud, waste, and abuse control. We had, in the last reporting period, 611 food stamp fraud hearings, compared to the national average at that same point in time of just 226. That ranked us sixth nationwide.

In the area of fraud prosecution, we completed 365, which gave us a ranking nationwide of 12.

Now, I think that this is quite an accomplishment, because we have only 11 investigators statewide, in a State that has 20 percent—the largest of any other State in the Nation—participating in the Food Stamp Program, and the State administrative cost is the 48th lowest in the Nation, at $49.56. Mention was made of these things by other witnesses this morning.

In my judgment, this kind of information shows conclusively that Mississippi, along with a vast majority of the other States, administers a responsible Food Stamp Program, sensitive to our obligations to both the recipients, as well as the taxpayers. We, too, are taxpayers right along with everybody else.

Several States have recently increased their computer capabilities, and are thus better able to maintain files on program violations and prevent abuse of program violations through computer capabilities. There have been some statutory things that have been enacted that have been very helpful. By reducing households allotments to correct overpayments, stiffer disqualification penalties for households as well as retailers, these have improved our ability to detect and reduce errors.

In Mississippi today, Senator, we are totally manual in our Food Stamp Program, totally manual. We are pioneering in the development of an all-welfare program, online, integrated, data-base computer system. We call this system MAVERICS, which is an acronym for Mississippi Application Verification Reporting Information

Control System. It is scheduled to become operational statewide in late 1985 or early 1986, and we are really excited about what it can do to help us improve program management.

Also, we are somewhat distressed at the USDA Federal financial funding in the development of this computer capability, for the national Food Stamp Program is only 75 percent, while development costs of other supporting programs in HHS, which are not nearly as national in scope, are funded 90 percent. We think consideration should be given to aiding the States in funding development costs for this enhanced computer ability in the national Food Stamp Program at least equal to that in other programs of 90 percent.

One other point, and I will conclude, Mr. Chairman.

Mail issuance is a very efficient and cost-effective method of delivery of food stamps. However, even more important, I think, is the service it provides to those who are really and truly in need. In a rural State such as Mississippi, with very little public transportation, it is often the difference between hunger and a nutritious diet.

Prior to implementation of the mail loss sanction system, over 50 percent of our coupons in Mississippi were distributed by mail. In monitoring the losses, it has become apparent that for the most part, these mail losses are attributable to problems with the Postal Service. Even so, our agency is responsible for all mail losses in excess of the tolerance limit which has been set, including those over which we have absolutely no control. The result has been that we have reduced substantially this vital service to many of our elderly, our disabled, and our disadvantaged citizens.

Once the coupons are deposited in the mail, all control is out of our hands as an agency. Control, yes; responsibility, no—not according to the food stamp regulations.

If food stamp coupons are mailed, and if they do not reach the intended recipient, we pay. We are willing to assume our responsibility for our errors, but not for the actions of a thief or the inefficiency of another Government agency. Just as does any person or any business mailing a letter or a package, we have a right to expect our mail to be delivered, safe from tampering and from theft, and if it is not, then it ought to be returned to the sender; otherwise, the Postal Service ought to be responsible for those losses.

We think this is a problem that deserves very careful attention, and the reason we say it deserves careful attention is that several legislative proposals before this committee now would require photo ID's—I will not comment on that, because I think it has been pretty well covered already—other legislation would require the countersignature of food stamps at the time of issue and at the time of the purchase of food. This effectively totally eliminates mail issuance, because you have to issue them in the presence of the person at the time you sign for them. We think this is a concern that ought to be very carefully considered. Let me conclude, Mr. Chairman, quickly, having about four or five specific things that we urge this committee to very carefully consider.

First is that you provide a rest from any major legislative and regulatory reforms. The Food Stamp Program, we think, is basically sound, but it needs and does deserve a period of stability.

Mandatory monthly reporting, or MR/RB, as we refer to it, should be repealed and made optional to States and jurisdictions that would find it cost effective and feasible to implement.

And if error rate sanctions are to be enforced, then we need to have a coordinated and uniform quality control system for medicaid, AFDC, and food stamps developed that defines, identifies, and measures the real errors in the program.

We believe that increased financial participation funding for development costs of computer capability in the Food Stamp Program should be increased from the 75-percent level it now is in this national program to at least a 90-percent level in nonnational programs, such as several that are administered by HHS.

We believe that we should preserve mail issuance for the elderly, the disabled, and disadvantaged recipients of food stamps by requiring or taking some action to remove the liability of the welfare agencies for postal losses, or make the Postal Service liable for losses attributable to the Postal Service. We do not think we should be held accountable for things over which we have no control.

The State public welfare administrators have reviewed, and there were discussions this morning on three pieces of legislation, as I understand it. That is, Senator Helms' bill, S. 1279, called the Food Stamp Optional Block Grant; Senator McClure et al's bill, S. 1727, which is entitled "A Bill To Reform and Reduce the Cost of Administering the Food Stamp Program," and Senator Helms' bill, S. 1993, that he described earlier as the Food Stamp Integrity and Accountability Act. State welfare administrators have reviewed these pieces of legislation very carefully and they are strongly opposed to these pieces of legislation. There are provisions in this legislation which would restore the purchase requirements; restrict eligibility from the current 130-percent level of poverty to 100 percent; a 3-percent error rate; mandatory photo ID's; countersignature of food stamp coupons, as I mentioned; elimination of the minimum $10 benefit; reduction of standard deductions, et cetera, et cetera.

So the provisions of these three pieces of legislation, we believe, would be administratively burdensome, they would be costly, perhaps a little bit punitive, and maybe even discriminatory.

We think they would eliminate or substantially reduce program benefits for millions upon millions of our needy citizens, including particularly children and the elderly. And we believe they are incompatible with the program purpose of food stamps as we understand it, and it is incompatible with administrative reality.

So the National Council of State Public Welfare Administrators is on record as being opposed to all three of these bills that I have mentioned.

I would be glad to try to answer any questions, sir, that you might have.

Senator ZORINSKY. When you make the comment about seeking stability and needing a rest from further changes in the Food Stamp Program, does that mean that you would also oppose any changes liberalizing the program as well as to tightening the program?

Dr. ROARK. No, sir. I believe my words said further restrictive legislative and regulatory reform, and I mentioned specific areas which now are cost ineffective that we think ought to be changed and deleted. This would require—MR/RB is one—would require legislative action to remove this very expensive and cost-ineffective system.

Senator **Zorinsky**. You do not feel that liberalizing the program would upset the stability of the program?

Dr. **Roark**. Not appreciably, sir.

Senator **Zorinsky**. But you do think that tightening the program would upset the stability?

Dr. **Roark**. Well, Senator, I think—you know, liberalizing may mean one thing to you and one thing to me, and stabilizing may mean a different thing. In general, I think the program under the current circumstances and actions that have been taken, is very well run, and we are just beginning to see the benefits of some of the tightening up that has taken place in the program, which generally has been good, although it is, in some cases, not cost effective.

Senator **Zorinsky**. What happens in the event—you tell me there is a great deal of loss through the Postal Service. I assume most of them are delivered, but stolen from the point of the mailbox—or do you know—I mean, are any of them returned to you for a better address?

Dr. **Roark**. Very seldom, sir, do we ever get one returned, and we always use a return address. There are really three areas where losses can occur in mail issuance. One is among workers. And we heard a lady testify this morning concerning fraud and the implication that fraud is rather rampant among employees in welfare departments. This is just totally incorrect. In over 4 years in Mississippi, we have found only two cases in which employees have been involved in embezzlement or fraud in the Food Stamp Program. Two.

Senator **Zorinsky**. You say you have only found two. Does that mean that there could be more?

Dr. **Roark**. There is always the possibility. We do not think so, because we run a pretty tight ship.

Senator **Zorinsky**. I see. Well, I am sure you would know better about your operation than I would.

Dr. **Roark**. And when we find an employee who is involved in fraud or suspected fraud, we immediately have this thoroughly investigated by competent investigators.

Senator **Zorinsky**. How do we get the States more interested in being concerned about the program? If the State does not have an economic share in the costs, they do not seem to be as concerned as if they were to have an economic partnership, or so to speak, in the program.

Dr. **Roark**. Senator, the States are paying 50 percent now of all the costs of administration, and a lot of the actions that have been taken here have really increased the administrative costs not only to the Federal Government, but also to the States.

Ms. **Mustain**. We have not gotten any increase in administrative funds from the Federal Government. Any increase that we have gotten, our State has paid for. So I just cannot agree that the States have no financial——

Senator **Zorinsky**. I see. Salary increases, then, are not compensated in any percentage by the Federal Government.

Dr. **Roark**. No, sir, not except through cost allocation plans.

Ms. **Mustain**. Yes.

Senator **Zorinsky**. I see.

Ms. **Crawford**. States do have some financial interest in this, though, in that a certain percentage of overissuances that are recovered can be retained by the States, and that is to their advantage; the more overissuances they collect, the more money they can retain. And I do not feel that States do not have an interest in making sure that the program operates the way it is supposed to. I think the program itself is its own worst enemy, because it is not administratively workable. And I do not think States are avoiding doing what has to be done. At this point, it is a matter of priority: Do you take care of the people who are coming in with less staff and get those applicants taken care of, or do you go on a search for fraud?

We are at a point now where we have to set our priorities, and where we do not overlook fraud—we still have people out there who are initiating a cry for help that we have to meet.

We also think that if you—"you" meaning the Federal Government—will give us a quality program to operate, then we will give you quality results.

Ms. **Mustain**. We really feel that the fiscal burden should be placed where it is borne, and that is in the Federal Government. As long as we continue to get a barrage of complex regulations that we cannot handle, I do not see how we can be held accountable for——

Senator **Zorinsky**. How would you feel, then, about the block grant-type approach, just saying to a State, "Here it is, it is your baby; you can improve on it, and do not come back to us and tell us about 900 pages. You write your own 50 pages"——

Dr. **Roark**. May I comment on that?

Senator **Zorinsky**. Yes, sure.

Dr. **Roark**. I am glad you raised that question. You know, when we really sit down and examine block grants, which sometimes tend to become an emotional issue rather than a logical issue, I think unquestionably, a block grant is a shift and a transfer of responsibility from a Federal program to a State program. And you know, I think one of the key decisions that has to be made is, is there a need for a national program to supplement low income people's diet, or should we just have about 50 different programs—because if you go to the block grant, you provide for a multiplicity of Food Stamp Programs, and you do away with the national program and the national thrust of what it is intended to do.

One thing that continues to confuse me, and I thought I picked this up a little bit here—the block grant really provides an interesting contradiction, that you just cannot trust States in the Food Stamp Program, because it is all Federal dollars. You just cannot trust them. And yet, the idea behind the block grants, you know, is give it to them, no strings attached, and I cannot understand where that mechanism suddenly causes a State to become totally trustworthy, whereas under the current program, we are not trustworthy. I just cannot understand it.

Then, block grants perhaps would increase errors, because it would result in poorer management. We currently have some very rigid sanctions that are graduated. This year, it is to be down to 7 percent. That is a tough target to meet, let me tell you. I know. It is tough. But somehow or another, we are going to meet it if there is any way it can be done, because it is one of our priorities, is to continue to get our errors down and get them as low as possible. But the block grant would totally wipe out the sanction program by Congress, wipe it out altogether. And you know, those States that are perhaps in a potentially dangerous sanction area would probably opt for the block grant because it is a mechanism to escape fiscal sanction. I think that needs to be borne in mind.

Senator **Zorinsky**. Well, I was the mayor of a city, and I was always easier to get to than I am now as a Senator from Nebraska. It costs about $380 roundtrip to get on an airplane to come and see me here now, whereas when I was mayor, it used to cost 40 cents to get on a bus. And many people brought their garbage down and dumped it on my desk if we had neglected to pick it up during the weekly pickup, and I got to be responsible for snow removal and all those neat things, and people called me at 4 in the morning and told me they could not get out of their driveway. They do not do that anymore. So I always from that experience felt that the local level of government certainly would be more responsive to the needs of the electorate because the electorate could make their will better known to that level of government. And now, you say that the big father in Washington should do that—and I agree with you that we probably encumber not only programs of this nature, but the private sector, with so much book work, based on our jurisdiction and the nature of any Federal program, that it is mind-boggling the money that could be saved without our intervention in requiring things like retrospective budgeting that you talk about, and probably if the truth were known—what do you do with the figures after somebody gets them? There is probably a big vault somewhere, piled high with them, and no one knowing what to do with them.

But that being as it may, I thought it was one avenue to be able to resolve the situation, and that is, get this bureaucratic jungle off your back and let you do your work. But obviously, you point out that the States cannot be trusted in this respect, because they will turn it into a multiplicity-type program, based on the priorities——

Dr. **Roark** States will have to pay, yes, sir.

Senator **Zorinsky**. And I would like to just make a correction. When we talked about the States' involvement in the cost sharing, as I understand it, the Federal Government pays 90 percent of all costs, the State pays 50 percent of 10 percent of the administrative costs.

Dr. **Roark**. I don't understand it that way at all. I would pose this question: What is the source of the figures? I do know that in our State, the administrative costs of the Food Stamp Program are shared 50/50 by the Federal Government and the States.

Senator **Zorinsky**. Of the 10 percent remaining that the Federal Government does not pay.

Dr. **Roark**. What do you mean, of the 10 percent remaining the Federal Government does not pay?

Senator **Zorinsky** [conferring with staff]. I am informed the administrative costs of the entire program are 10 percent, and that is paid 50/50, which means the Federal Government picks up 90 percent of all other costs. The rest of the program is 90 percent; the administrative costs are 10 percent, of which they share 50/50 with the States.

Dr. **Roark**. That is right. That is why I cannot quite understand, even though the allegation has been made by some distinguished members of this committee that you cannot trust the States, because it is 100 percent Federal dollars of the coupon value.

Senator **Zorinsky**. Well, if you can trust the States, why can't they implement the program?

Dr. **Roark**. Well, I think they can implement the program, and they are doing a terrific job with it now.

Let me say something else concerning this whole area of block grants. There are several different proposals floating around with little differences in the block grant approach. But the Food Stamp Program responds, Senator, as you well know, having been out and had folks dump garbage on your desk when you were mayor, it responds to the local economy, and also, it responds to demographic changes. And we have now a pretty highly mobile society. Therefore, it is really not feasible, if you think about it realistically, to consider block grants. That is one of the reasons why the National Governors' Association, the U.S. Conference of Mayors, which you are probably familiar with, and the National Association of Counties all oppose block granting the Food Stamp Program.

Senator **Zorinsky**. Well, I am aware of that. I am also aware of what the Federal Government has done to the Social Security Program, and as you aptly pointed out, in the Postal Service, there may be some deficiencies existing. I always had the opinion that if Government took over crime, that wouldn't pay, either. So maybe that is one of the resolutions to the problem.

Well, thank you very, very much. We appreciate your participation.

Next, Dr. John Raisian, executive director of the President's Task Force on Food Assistance, and Robert Greenstein, director of the Center on Budget and Policy Priorities.

Gentlemen, would you have any opening statements to make? Welcome.

STATEMENT OF JOHN RAISIAN, EXECUTIVE DIRECTOR, PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE

Dr. **Raisian**. I have just a brief statement, Senator.

Mr. Chairman, my name is John Raisian, and I was executive director of the President's Task Force on Food Assistance. I am pleased to be here today to present you with some of the task force's findings and recommendations.

The President's Task Force on Food Assistance officially began on September 27, 1983. Findings and recommendations were adopted on January 9 of this year. Finally, our Washington office closed on January 31, and we are now waiting for the printed report to be delivered in the next few weeks.

As expressed in the Executive order creating our task force, we were instructed to "analyze Federal and other programs intended to render food assistance to the needy and make recommendations with respect to how such programs may be improved."

Today, I will address those findings and recommendations that pertain to the Federal Food Stamp Program.

The Nation's level of commitment to Federal food assistance programs is extensive. There are 13 major programs, and Federal expenditures exceeded $19 billion in 1983. Less than 15 years ago, the Federal Government spent less than $3 billion a year—expressed in 1983 dollars. Even with this extensive effort, the task force has suggested program areas that could be strengthened. The weaknesses that exist, however, are not really new. Problems have been exacerbated by recent recessions. However, placing blame for all of our problems on the Congress or the current administration is simply not warranted.

As you well know, many changes in food assistance programs were enacted in 1981 and 1982. These changes were the topics of much discussion at our hearings. As a result, we took care to examine closely the available data in order to assess the impact of recent changes in the major food assistance programs on the amount and availability of benefits to low-income households.

In the Food Stamp Program, the principal change affecting eligibility was the elimination of households with incomes greater than 130 percent of the poverty line. We have examined the effect of this change with the data that the Census Bureau utilizes to calculate poverty rates. We find that participation rates among families with incomes below the poverty line—the program's primary target group—were not affected. If anything, participation rates within this group have increased a bit. The effect of the changes was to reduce participation among families with income levels above the poverty line.

There have been some reductions in benefits for participants in the Food Stamp Program. The principal reduction resulted from delaying the adjustment of benefits for changes in food prices between 1981 and October of last year. Additional reductions include: Basing food stamp allotments on 99 percent instead of 100 percent of the thrifty food plan; reducing the earned income deduction from 20 percent to 18 percent; prorating benefits in a recipient's first month in the program; and rounding down benefits to the nearest dollar. Now that the freeze is over, the remaining benefit reductions are relatively small.

While recent program changes do not appear to be the sole cause of current problems, the task force found several shortcomings in current food assistance programs and has made detailed recommendations addressing these problems.

Let me briefly address those that pertain to the Food Stamp Program.

The asset limits in the Food Stamp Program were judged to be unrealistically low for many of the new poor, and it was recommended that they be liberalized.

We were told that the homeless still find it difficult, if not impossible, to obtain food stamps in some areas, despite the enactment of

Federal regulations intended to prevent this. It was recommended that this situation be remedied at once.

There is no justification for basing food stamp allotments on anything less than the full value of the thrifty food plan and a return to basing these allotments on the full value of the plan was recommended.

It was judged that the error rate in the Food Stamp Program was out of line with those observed in other programs. Stronger incentives for States to improve administration was recommended.

We have found that the elderly and disabled often face particular problems with the Food Stamp Program. To facilitate their participation, it is recommended that the program be cashed out for these groups or at least that they be permitted to use food stamps to purchase prepared meals.

There is currently no mechanism for obtaining a comprehensive and accurate reading of the current nutritional status of our citizens. The task force recommends that better information be gathered with respect to the nutritional status of our Nation's households.

We believe these recommendations will benefit many recipients of food assistance and many who are not now receiving assistance.

I would now like to turn to two of our broader recommendations. These recommendations are to allow optional autonomous food assistance programs run by the States and to address poverty issues based on a collection of new data on the budgets of poor households.

Our recommendation for autonomous programs stems from three basic findings. First, people's needs and the circumstances they face vary from region to region and State to State. A program with uniform national standards of eligibility and benefits simply cannot be tailored to meet the needs of all people.

Second, a uniform national program cannot attempt to meet specialized needs without adding more complicated deductions and questions on the application form. This increases program complexity and administrative burdens.

Third, high error rates result from the existing structure of Federal programs because States are not fully responsible for errors.

We believe that allowing the States the option of running programs—with full and guaranteed Federal support—would help to reduce these problems. The essential features we propose are as follows.

The program is optional to the States; any or all existing programs may be included.

The program would continue to provide full Federal funding for benefits and State administration.

Funding would be indexed to be responsive to changes in the size of the State's population in need and inflation. Funding could be adjusted throughout the year as economic conditions change.

We have attempted to address some of these basic and difficult problems—problems that have been presented to us by many people during our hearings. While we have not provided a blueprint for immediate action in the area of autonomous food assistance programs, we feel the concept is deserving of serious consideration. Even though there may be disagreement with this recommendation, I hope that we can agree that the problems they are designed to address warrant our consideration and should not be dismissed.

The deepest and most difficult problems faced by everyone who deals with the Federal transfer programs are the questions of what is an adequate amount of assistance and who should receive it.

Ultimately, the answers to these questions must rest on our moral, political, and economic judgments. However, we need to obtain a solid factual foundation for these judgments. We need to give serious study to the question of what constitutes poverty and to how trends in poverty can be measured.

We believe it is possible to obtain much better information on the meaning and measurement of poverty. Such information could tell us how the cost of living changes for poor people, what level of income is necessary to achieve an adequate standard of living, what proportion of income-poor people can reasonably be expected to spend on food, and how the cost of living varies from one area to another.

Better measurements will not automatically answer the difficult questions that must be faced. However, informed judgments will yield a fairer system that should improve services for the needy.

Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you, John.

Mr. Greenstein.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. Thank you, Senator.

It is a pleasure to testify before the committee again. I am Robert Greenstein, director of the Center on Budget and Policy Priorities.

I think I recall once, a year or two ago, in talking to you, you asked me what exactly that was, and without going into detail at this point, we are a nonprofit organization that conducts research and analysis on the various Federal budget issues, low-income issues, and in particular, food assistance issues.

Let me depart briefly from my testimony to make an opening point, and then cover certain aspects, but not the full text of the statement.

Senator ZORINSKY. Without objection, your entire text will be put in the record.[1]

Mr. GREENSTEIN. Thank you.

As I have sat here today, listening to some of the discussion of error rates—and we are all concerned about error rates and would like to bring them down—I did feel there was one point that was being missed, and that is that while we need to continue and intensify efforts to bring down error rates, we do need to recognize that some good progress is being made in getting error rates down. I remember several years ago when they were up around the 11 and 12 percent level. While the latest data has not been published—the published data is always about 3 years behind what comes out of the Department. The indication is that the error rates are now at or below 9 percent in overpayment and about 2 percent in underpayment, for a net loss to the Federal Government of about 7 percent.

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[1] See p. 190 for the prepared statement of Mr. Greenstein.

Now, let me give you a perspective. Between 1982 and the first part of 1983, according to information from the Department, the number of States with error rates over 9 percent dropped by more than half. That is good progress. I think there is a reason that has something to do with this. You may recall that in 1982, the committee adopted and the Congress enacted a proposal originally fashioned by Senator Dole that penalized States if their error rates were not reduced first to 9 percent, and then 7 and then 5. This is now starting to have its effect.

The first sanctions under that have not really been levied yet, because they are based on error rates for 1983, and the data is not all in. But I do think we should recognize that you did take action; there is a strong system in place, it is starting to have effect, and there is some real progress being made out there. That is not to say we cannot do more, but I do think that there tends to be the sense that things are the same as they were 2, 3, 4, 5 years ago. They are not. They definitely are improving, but they still have a ways to go.

Let me turn now to two particular sets of proposals regarding the Food Stamp Program, S. 1727, introduced by Senator McClure, and the recommendations of the agriculture panel of the Grace Commission, which were presented in February to the committee—those are somewhat different from the Grace Commission recommendations presented today, which I will briefly comment on.

In the case of S. 1727, Senator McClure and other sponsors of the bill have stated that its principal goal is to reduce error and fraud, and similarly, the Grace Commission has said its principal aim is to achieve management improvements and administrative efficiencies.

We all share these goals of reduced errors and increased efficiency. However, a close examination of those proposals show that the principal effect of both is not to reduce errors or improve management, but rather, to make very deep reductions in basic food stamp benefits for millions of our poorest families and elderly persons.

For example, in the McClure bill, preliminary CBO estimates show that this bill would cut benefits—we are not talking about errors now or administrative costs, but just benefits—by more than $20 billion over the next 5 years.

For example, it would freeze benefit levels at June 1982 food costs, so that food stamp benefits would fail to keep pace with changes in food prices. If the cost of the thrifty food plan to which food stamps are tied rose 5 percent a year, then after 5 years, benefits would equal only 75 percent of the thrifty food plan. Now, the President's task force has made a major point of saying that there is no basis for setting those benefits any lower than 100 percent of the thrifty food plan, the Federal Government's cheapest plan. This proposal would cut them far below that and cut the food-purchasing power of every household on the program. That has nothing to do with error and fraud. That is an across-the-board benefit.

Similarly, the bill would cut the food stamp standard deduction by one-third, cutting food stamp benefits by over $100 a year for nearly all households, including the poorest of the poor; the same thing in the area of the food stamp shelter deduction.

Those three changes alone, according to CBO, would cut food stamp benefits by more than $11 billion over the next 5 years—$11 billion in reductions, having nothing at all to do with reduced error or improved administration.

Many other provisions in the bill would have the same effect—to reduce the food stamp minimum benefit, which is principally for the elderly and disabled—and would, when combined with the other provisions I have mentioned, result in the termination of some elderly persons living alone with incomes as low as 76 percent of the poverty line. Elderly widows living alone are the bulk of the elderly single-person households. Elderly women living alone with incomes at 76 percent of the poverty line, or $307 a month in gross income, would have all their food stamp benefits terminated.

Overall, this bill would cut food stamp benefits $2.7 billion next year, and $20 billion over the next 5 years. Every household in the country, the poorest of the poor, and every elderly and disabled household on the program, would have their benefits cut. Several million would be terminated, and lose all benefits, including several hundred thousand elderly households, and the benefit cuts would get larger and larger with each passing year.

I would note that this bill, S. 1727, contains, perhaps, the most severe combination of benefit cuts I have ever seen assembled in a single bill, and that most of these provisions were considered individually by this committee in 1981 and 1982 and soundly rejected.

Let me mention one other provision in that bill, one that would authorize States to remove thousands of unemployed families and elderly persons from the program by lowering the food stamp asset limits. Now, let me mention again, as John Raisian has said, the President's task force specifically recommended raising the food stamp asset limit from $1,500 to $2,250 for the nonelderly in order to provide assistance to needy unemployed families. But instead, S. 1727, the bill introduced by Senator McClure, would allow States to lower the assets limit to $1,000, the level used in AFDC, for all unemployed and other elderly and disabled households and would also authorize States to apply an asset limit to the elderly and disabled. This would result in some poor elderly persons whose assets were a bit above the SSI income limit and who are below the poverty line and get Social Security and food stamps now, having all their food stamps cut off.

Finally, in regard to S. 1727, I would like to note a couple of provisions that are not benefit issues. They are advertised as administrative and dealing with error, but they are really ill-advised because they would not be cost effective.

Specifically, current law requires the use of photo ID cards in the Food Stamp Program in all areas in which the Secretary, in consultation with the inspector general, finds this would be cost effective and "would be useful to protect the program's integrity."

S. 1727 repeals that provision and replaces it with a blanket requirement that photo ID's be used in all areas, including those in which USDA has essentially determined that this would not be cost effective, such as isolated rural areas where everyone knows everybody else.

Second, this issue of countersignatures, S. 1727 requires that all food stamps be signed on issuances and countersigned in the grocery store. That may sound good at first blush, but in fact, it would cost the taxpayers millions. Use of mail issuance of food stamps in rural areas would have to end, but the evidence is clear that it has reduced administrative costs by millions of dollars.

Third—and this is particularly important—the amount that banks and post offices charge the Food Stamp Program to issue food stamps would at least double, because the time it takes for each transaction—if the person has to stand there and sign each coupon—more than doubles if you impose a countersignature requirement. I think there is little question that the administrative cost increase would vastly outweigh any savings.

In fact, this was briefly looked at in 1975. The Department considered a pilot test after a couple Members of Congress raised it, and could not find a single county in the country where the local officials would agree to pilot test it, because it was viewed to be so cost ineffective.

Let me briefly comment on some of the Grace Commission recommendations.

Again, the commission's supposed emphasis was on achieving savings through improved management and enhanced efficiency. But—and this is similar to the McClure bill—virtually all the food stamp savings recommended by the commission's agriculture panel—and I will distinguish that from the panel that testified here earlier today—would be achieved through major benefit cuts affecting nearly all food stamp households, and not through administrative efficiencies.

By the commission's own estimates, its recommendations would result in $6.7 billion in new food stamp benefit cuts over the next 3 years, or more than double the cuts enacted in 1981 and 1982. Only four-tenths of 1 percent of those savings would come from the administrative cuts, and 99.6 percent from benefit cuts.

By the commission's own data, over 96 percent of all food stamp households including the poorest of the poor, nearly all the elderly and disabled, would have their benefits cut. More than 7 million households would suffer benefit losses. Between one-fourth and one-third of all households with elderly would be terminated. Some elderly persons, mainly women living alone, with incomes as low as 67 percent of the poverty line, would be terminated.

I will not at this point go into detail on the specific provisions or exactly what the problems are, but suffice it to say that I think this discussion illustrates the critical importance of carefully scrutinizing all food stamp proposals that come before this committee, including proposals that purport to have error reduction or management improvement as their principal goal.

We live in a period—and we increasingly see this with all the campaigns—when images, one-liners, and packaging are used to sell products in all walks of American life. In the Food Stamp Program, proposals described as benefit cuts are no longer easy to sell. Increasingly, these proposals are being characterized and presented in other terms. In the end, however, proposals such as those I have been discussing would have a profound impact on millions of poor Americans across this country. If we as a nation truly want to reduce hunger in this great country of ours, we must see to it that harsh proposals such as these are not enacted and that we understand when we are talking about error and administrative costs and when we are really talking about benefits.

Let me make just a few, very quick final comments. No. 1, Senator, I would note that in the report by the CBO and the General Accounting Office on the Grace Commission recommendations, they comment on a proposal discussed earlier today about designating part of the food stamp allotment for dairy products, and they explicitly say GAO disagrees, GAO thinks that is a bad idea. Second, with regard to the proposals to tighten or change verification that the Grace Commission recommended, some of those clearly have merit, like requiring all States to collect quarterly wage data for wage matching. But one that does not have merit is requiring every recipient to bring in last year's income tax return. Eligibility and benefits are not based on last year's income. They are based on current income. And again, the GAO notes that they think that that does not make sense, would be of limited usefulness and would not reflect current circumstances.

Finally, last, one of the recommendations presented today by Grace Commission witnesses was to combine administrative funding for food stamps, AFDC, and medicaid into a single block grant and cut the money. I would submit that if you do so, the error rates will go up. One of the main reasons administrative costs have been rising in recent years is because States are doing more to reduce errors, and you can't give them tough targets and at the same time tell them to get their error rates down or you are going to sanction them and reduce the administrative funds going into the program. When that Grace Commission recommendation was discussed earlier this month before the Finance Committee, the Finance Committee rejected it, and I know Senator Boren spoke particularly strongly about the ill effects it would have.

I will not comment here on the recommendations of the President's task force. I did testify on them at a joint hearing the committee held earlier at the end of January. I disagree on the block grant and a couple of their other recommendations, but I have already testified on that, and I will not take more of your time going over that again today.

Thank you for this opportunity.

Senator **Zorinsky**. Thank you, gentlemen.

Do you feel that, as one of the gentlemen testified previously, that there should be a period of stability now, with no changes, or do you think there should be changes?

Mr. **Greenstein**. Let me try and make a distinction. I generally agree that there should be a period of stability. I particularly agree that massive regulatory changes, such as Dr. Roark discussed, that really do little other than make a lot of detailed changes would inevitably drive error rates up, not down.

I do think that there are some changes that can be made that do not increase complexity. Let me give a specific example.

The task force has recommended that food stamp benefits be set at 100 percent of the thrifty food plan again, and not at 99. That has no complexity. All that means is that next October, when the benefit levels change anyway, as they do each October, they are computed at the 100-percent level rather than the 99-percent level.

Similarly, the recommendation the task force has made on food stamp asset limits does not really cause complexity; it is simply putting the dollar level at one point rather than another.

And finally, a recommendation such as the one you heard from the Grace Commission, that you should take those 10 or 11 States that do not collect quarterly wage data and therefore cannot do as effective wage matching, and require them to collect quarterly wage data—that seems to me quite reasonable and something that should be done.

What I am saying is that there are a limited number of changes. Some deal with the hunger problem. You might describe them as liberalizations. They are things the task force recommended, essentially. Some of them are things that are tightening things that do not rip up the whole program, but are targeted at a certain place. I think there are a limited number of those that could be useful, but I would stress limited. And I think on the whole, stability is needed.

One final point on this. I think that if you look at food stamp error rates in the last few years, you tend to find a pattern: That in periods in which the administration and the Congress, even with the best intentions of reducing error, make large numbers of changes in the program, you tend to find the error rates going up right after that. But over the past year or so, when it has been relatively stable, the error rates really did start to come down. So I would generally support the goal of stability. I think that there needs to be a very strong justification for another change at this point, especially since we are going to reauthorize food stamps next year anyway as part of the farm bill.

Senator ZORINSKY. Then, I would be safe in putting you down as leaning against S. 1727?

Mr. GREENSTEIN. Yes. I would strongly oppose S. 1727, but not only for the stability reasons. As I mentioned before, something that makes a $20 billion cut in benefits over 5 years and takes it out of the hide of the elderly and the poorest families is something I certainly do not think we should do.

Senator ZORINSKY. Do you have anything to add to that, Dr. Raisian?

Dr. RAISIAN. Well, I think that what the task force has said in its statements is—to reemphasize—that oftentimes, program complexity is an attempt to make a large Federal program responsive to specific needs. And there is no question that the error rate is related to this complexity.

I think that the proposal to allow States to form their own programs—in other words, write their own manuals on distribution activities—is one that could be very, very successful.

Sometimes, you hear statements to the effect that Federal representatives are avoiding their responsibility with a recommendation of State awareness programs. If a motion or a recommendation along the lines that the task force has offerred were to be implemented, one would find that there is a full Federal fiscal responsibility in the recommendation made by the task force.

Senator ZORINSKY. Do you believe your error rate recommendation or proposal is achievable by the States inasmuch as some of them have testified that it is not?

Dr. RAISIAN. Well, in the judgment of the task force, it was felt that a 5-percent target is a reasonable target. It is felt that States could be responsible for overissuance errors, and all overissuance errors. And while penalties for some States that have error rates as high as 20 percent may be severe for those States, it is time, I think, for those States to take a hard look at their distribution system.

Senator ZORINSKY. Mr. Greenstein, your comments, when you refer to the President's task force, you seem to agree with all of their increases, but none of their reductions. Is there any provision you support that does result in budget savings?

Mr. GREENSTEIN. Actually, there is only one food stamp recommendation in the entire task force report that would result in a reduction in Federal costs. There aren't any large numbers, it is just one, and that is the proposal that you were just discussing in regard to error rates.

I do not agree with that for the following reasons. The 5-percent target is already in law—you put it in in 1982. The question is not whether that is the right target. The question is how much do you sock a State that does not reach it. Under current law, under the provision enacted in 1982, under the latest published error rates, sanctions on States, if they do not get those error rates down, will be $220 million next year. Under the task force recommendations, that would rise to about $460 million.

Now, I do not really think there is any evidence at this point that those sanctions, the amount of the sanctions, has to be doubled to get more action. As I noted, we are starting to get real error rate reduction now, and second, the first penalties under the law you enacted in 1982 have yet to be exacted. My fear is that if you make the sanctions too heavy, you end up with less money for State administration, you end up with the States spending more time in court, fighting you over the propriety of the statistics with which you hit them, and you possibly end up with the States simply taking the benefits out of AFDC recipients elsewhere in the State welfare budget and not really ending up with any other effect other than that.

That is a disagreement, but that is the only food stamp proposal in the report.

Senator ZORINSKY. Well, then, in your visionary expertise, do you have any recommendations wherein budget savings could be attained?

Mr. GREENSTEIN. I would say two things. One, let me reemphasize that I think we are going to get increasing savings under the error provisions that are currently in effect if we give them a chance to work. I do think there are a few provisions—not a huge number—on either side that could be done, and I think there are a few provisions, such as—without mentioning them all—there are a couple of those points in the Grace Commission recommendations on low income standards, as I mentioned, dealing with getting wage matching, quarterly wage reporting from the 10 or 11 States that are not doing that. There are a couple of provisions that I am not that familiar with all the implications of, not being an Internal Revenue expert, but that are in a couple of the bills, to kind of more closely coordinate IRS data and make it available for cross-checking with food stamps or for recovery of overissuances with food stamps. If IRS does not see a problem with those—and sometimes, they do—those may well be good ideas that can result in further improvement.

I am not opposed to those kinds of provisions. I am opposed to things that reduce benefits for honest eligible people who are on the program.

Senator **Zorinsky**. Dr. Raisian.

Dr. **Raisian**. Going back to the 5-percent limit on the sanctions, Senator, I would go back to the example you used earlier about the parking lot. What we do find in our daily lifetime circumstances is that oftentimes when a penalty goes up, people do respond to the size of the penalty. In the case of the sanctions of individual States being responsible for errors in excess of 5 percent, I would emphasize that that there will be a doubling in the size of the sanction relative to the current situation only if there were no responses. Now, presumably, if that penalty is sufficiently high, then there would be a sizable response, and I would not expect that the error sanctions to be as high as what Mr. Greenstein has estimated.

Mr. **Greenstein**. I would just briefly comment, without prolonging the debate on this—obviously, John and I disagree—that there is a point at which, as you increase the sanction—clearly, you get more action—but there is also a point at which the sanctions is so big that if you make it bigger, you are not going to necessarily get more response. You have already got enough of a stick. I believe that you reached that point, and what you enacted in 1982 and in the analysis that CBO did last year of the administration proposal to increase the sanction, they reached the same conclusion and said the increased sanction would all be a cost shift to the States and would not result in additional error reduction.

I would make one last point on this. Again, John and I disagree on this, but it is very much my belief and that of virtually everyone I have talked to who is involved in the administration of food stamps, that you would get less push to reduce error rates, not more but less, under the block grant proposal, and the reason is the following. The moneys are all still Federal. But you would no longer have any sanction at all. Here, we are talking about how much of a penalty to have under the block grant—there is no penalty. A State could have a very high error rate, and there is no penalty at all.

Now, John argues—and he and I have discussed this—that since the State only gets a fixed amount of money, if it gives too much to one person, it does not have enough left for somebody else later in the year.

I would submit to you that a caseworker in a given office is not upset under the prospect that it will never come back to them, that somebody in some other part of the State, 9 months later, might get a slightly lower benefit. What happens when you have sanctions in effect, increasingly, is the States are finding out what is causing the error, they are finding which offices have the largest errors, and in some places, they are finding which caseworkers have the largest errors. And boy, that puts pressure on them. You have a block grant, and you have no Federal sanctions——

Senator **Zorinsky**. Well, I feel that one of the reasons for the growth of the Food Stamp Program goes down to the bottom line of what you just said, or at least, the attitude of what people have had about the money that funds this program. You said, "It is all Federal money," like Federal money is money we generate here in printing presses, that we have a vision one night how much we need, and then we make it. The Federal money is the people's money. It is the States' money. It is the cities' money. Rabbits and turtles do not pay taxes; people pay taxes. Federal money is people's money, and that is why, when you talk about block grant and how ineffective it would be because it is the Federal money that is being spent, when we get the attitude once again, in Government and in all of our social programs, that that money is all of our money, not the Federal Government's money—that is what really used to irritate me when I was mayor of Omaha. I would get these general revenue-sharing funds that they sent me, and then in addition to that, they did not put strings on it, they put ropes on it from Washington, and then they would tell me how to run Omaha, when to run Omaha, why to run Omaha, where to run Omaha, because they were sending me their money. And time and time again, I had to remind them, it was not their money; it was money of ours they were returning back to us because obviously, it is the taxpayers that generate that revenue.

So I just think we have got to return to the point where we can trust one another, regardless of the program, because the money is generated by the people. And this Federal money you talk about being sent to the States is money that the States sent to the Federal Government, originally.

Mr. **Greenstein**. Sure, I agree with that. The point I was trying to make is simply that when a sanction is imposed—and you would know, as a former official—not only is money taken out that was otherwise expected, but the political embarrassment for a State welfare commissioner or a Governor having a headline saying, "State Billed $3 Million for Excess Food Stamp Errors"—that is a political disaster. And that is beginning to result in very strong efforts and very strong pressures to reduce errors that are extending down to offices and caseworker levels in some places. The point I was making is that once you switch to a block grant, you lose all of that. I honestly believe that there will be far less pressure and incentive to tighten up programs and reduce errors under that—and while John disagrees with that, I will tell you that virtually everyone I have talked to who is actually involved in administration at Federal, State, or local levels, including some of those who cannot talk on the record because of current positions on that, agree with the assessment I have just made.

Senator **Zorinsky**. John.

Dr. **Raisian**. I would just quickly respond. Coming back to your example of someone coming in and dropping garbage on your desk, I think that the kind of system that you have now allows for State representatives to say, "Look, I am operating within the constraints that the Federal Government imposes on me." I think that if the people know that the responsibility sits with the States, you do not allow this kind of pass-the-buck phenomenon. It is a major public embarrassment, if a State agency has control of its programs and is not meeting the needs of its individuals.

Senator **Zorinsky**. Let me tell you something as an elected official. There is nothing more fearful than being defeated at the ballot box. You become very responsive to the people you serve. It is even more so on the local level of government, because back here, you are isolated, and especially in the Congress, you become one of many. I have found that when you are critical of one of your colleagues, well it always seems that their people back home think he or she is OK, but the rest of you people back there are thieves and criminals.

So you know, I just think that the ability to communicate is much easier on the local level of county government, city government, municipal government, even State government. But once you get on the Federal level, the people back home look at this as a blob back here, with many layers. And I have to agree with them, because at least I used to be able to find people when I was looking for them when I was mayor, and on this level of government, I have difficulty finding the right building let alone the right individual back here.

I want to thank you very, very much for your time and participating in the hearings and your contribution to the hearings.

Thank you very much, and with that, the committee stands adjourned.

[Whereupon, at 1:08 p.m., the committee recessed, to reconvene, at 2 p.m., Wednesday, April 30, 1984, in room 328-A, Russell Senate Office Building.]

OVERSIGHT OF THE FOOD STAMP PROGRAM

WEDNESDAY, APRIL 30, 1984

U.S. Senate,
Subcommittee on Nutrition,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:10 p.m., in room 328-A, Russell Senate Office Building, Hon. Thad Cochran presiding.

Present: Senators Cochran and Dole.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator **Cochran**. The subcommittee will please come to order.

At the request of Senator Dole, I am convening this hearing. He is, of course, chairman of this Nutrition Subcommittee. And due to airplane connection problems, he is unable to be here at this time. I am happy to substitute for him and begin the hearing.

The witnesses are some who are involved in administering the Food Stamp Program and some private citizens for testimony. We welcome all of you to the hearing.

I think we will begin with our witnesses. I do not have a formal statement. If Senator Dole has one, we will certainly want it to be included in the record.[1]

Let me ask Robert Fulton to come forward. Please have a seat right here, Mr. Fulton, as our first witness.

Mr. Fulton is the State welfare commissioner of the Oklahoma Department of Human Services, Oklahoma City, OK. He is the chairman of the income maintenance committee of the Association of State Welfare Administrators.

Welcome to the hearing. We have a copy of your statement which we will incorporate in the record in full, and encourage you to make such summary comments or statements from your prepared remarks that you would like.[2]

STATEMENT OF ROBERT FULTON, WELFARE COMMISSIONER. OKLAHOMA DEPARTMENT OF HUMAN SERVICES, OKLAHOMA CITY, OK; AND CHAIRMAN, INCOME MAINTENANCE COMMITTEE, ASSOCIATION OF STATE WELFARE ADMINISTRATORS

Mr. **Fulton**. Thank you, Senator. I am pleased to be here.

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[1] See p. 263 for the prepared statement of Senator Dole.

[2] See p. 265 for the prepared statement of Mr. Fulton.

I want to say that I think if there has to be a substitute, you are the one since you are also involved on the appropriations side with nutrition programs.

What I would like to do is summarize briefly some data about our Food Stamp Program in Oklahoma and then comment secondly on some features of bills that have been introduced or are pending introduction.

And finally, comment on some policy and administrative issues that I think are significant problems in the program as it now operates.

First, as a general premise I should say also I am not speaking for the national council. I was asked to speak for the State administration. I was under the impression that my colleague would submit statements. So in some cases I would perhaps depart somewhat from the party line because I am testifying on what I believe to be in the best interests of the people of Oklahoma, and for the rest of the country for that matter.

But these are more or less personal views rather than the views of the national organization.

Second, I want to say that I believe that it would be in the interest of the Food Stamp Program and the people that are dependent upon it for support to be very cautious about changes in the Food Stamp Program. This program has been beset by change after change going back at least to 1977, and really farther than that. And what I hear from our people regularly that it is very hard to keep our staff on top of the rules. And when we are not changing the laws, we are changing the regulations out of USDA, or we are doing something to try to catch up in regard to the implementation of what we have already got.

So I would be in favor of not legislating in the short run on this program really, and looking toward the reauthorization next year as an opportunity to examine issues very carefully. I realize it is important to start something of this nature early. But I do not see an urgency for a whole set of amendments this year.

Frankly, if we got a bunch, we would simply continue the problem of administrative disarray that has tended to surround this program. So I really do not see anything that is so urgently in need of fixing that it has to be done this year.

Let me say a little bit about the program in Oklahoma. We have almost 100,000 households receiving food stamps, close to $11,000 a month to those households. We have 19,000 of the households who receive an average benefit of $15 and 14,000 of those households get the minimum benefit of $10. And one of the points that is made in my statement that I feel personally very strongly about is that States should be given the opportunity to cash out food stamps for the elderly. It really makes very little sense to me to run a coupon program for a group of people that get from $10 to say $20 per household and among whom the stigma problem and just the logistics problem of using food stamps really can be very severe.

And so I would strongly favor opening the window for States to be able to combine the food stamp benefit with the cash benefit for just those adult categories. I would not favor that for the families with children myself on anything other than a limited pilot demonstration basis. My judgment is that having the Food Stamp Program as opposed to putting all the assistance in cash does increase the likelihood that substantial numbers of children will get minimally adequate nutrition.

And for that reason, I would favor continuing the Food Stamp Program for families with children closely integrated with income, cash income assistance policy, but run as a focused targeted kind of support.

The Oklahoma program is administered on a statewide basis with county level offices, which are staffed by State employees. We do not have county administration in our State.

The application taking is done at the county level. The data on recipients is fed in through an online computer system. And the coupons are mailed, or in some cases where there are special situations, people have requested authorizations to purchase rather than the actual coupons to be mailed to them, we do have those.

But largely we are a mailing of food stamps State. And again, a point that has been made in my statement, we have some concerns about the way the Agriculture Department has implemented a congressional mandate to establish standards on food stamp losses. We have run the statewide program well within the tolerance level in losses in mailing the food stamps that the USDA has established. And yet because in two post offices in our State we have had a higher than normal loss rate, they have applied a small penalty to us. We feel strongly as a matter of principle that that is not the appropriate way to deal with the States, and we have actually brought suit against the Department of Agriculture in Federal court recently on that point.

But we are a mail issuing State. It has worked quite well. We save the Federal Government about $400,000 a year mailing stamps instead of using the ATP system. And it is simply a lot easier administratively to handle it the way we are handling it.

Now, on the pending bills, commenting somewhat I guess is not yet an introduced bill, but we were sent the specifications, I will call it the Dole-Domenici bill. I used to work for Senator Domenici, and I notice he is listed on the bill as a sponsor. I do favor making AFDC and SSI recipients, as long as we are going to have them in the coupon program, eligible for food stamps without putting them through another eligibility process. And I am very encouraged by the fact that we have been able to work out a demonstration program in Oklahoma in which that is exactly what happens.

We basically use the eligibility determination for the cash assistance program to determine eligibility for food stamps. That has been worked out with a great deal of difficulty I might say. There were many, many sessions necessary with the people from the Agriculture Department before we could get that process going. But it has just been implemented beginning April 1, and I think we are going to have a very good experience with that.

On the thrifty food plan, I do support the restoration of the maximum coupon allotment of 100 percent of the thrifty food plan. I would personally be of the view that that could wait for the reauthorization. It is a question that I realize has been spoken to. It is part of the concern about hunger at the national level. It should be done. I am not personally of the view that it is a matter of tremendous urgency.

On work incentives, again the same viewpoint on my part, raising the earned income deduction 200 percent instead of 18 percent will be an improvement in regard to work incentives, and it should be done. I also support the notions of optional community work experience programs. However, I think it should be recognized that we are not likely to get dramatic uptake on that in the States as long as the financial incentives for doing it are as weak as they are now.

The States have a lot under play. And I can speak from firsthand experience over the last year. I think a lot of people here, including myself before I became a State director, really don't have a very good appreciation as to just how much pressure there is on these agencies that are running these programs. And to expect my agency right now to take on community work experience for food stamp recipients is just unrealistic. We are hard pressed on administrative money. We have many, many pressures on our staffs at the county levels where they would have to be done. And if the option were given, I would hope at some time we could get to it, but I would not want to promise to do it within the next year or two. But I do favor the option being supplied.

I want to comment on one thing about work effort by food stamp recipients. There is a kind of an unbelievable mess regarding the employment services support of work search and job placement by food stamp recipients. I don't know exactly how this stands throughout the country, but in Oklahoma at least right now in order to implement the Federal law that requires registration of food stamp applicants and recipients for employment, our county staffs fill out a form, work registration form, and it simply goes into our case file. It does not get sent to the employment service because there has been—and that is the instruction of the Department of Agriculture—because there has been a breakdown in negotiation somehow between the USDA and the Department of Labor and the State employment service networks.

And so there is no special effort made as a result of somebody coming in and getting on the food stamp rolls.

Now, presumably if they are on unemployment insurance as well, they are already in the ES system. But as far as getting anything out that of that work registration procedure now, it is just a farce. There is nothing happening.

And I think until we get the job search effort working better than it is working now, talking about large-scale workfare for food stamp recipients, it is kind of tilting at windmills. Because the major opportunity for food stamp recipients is always going to be in regular employment, getting them a regular job, not the workfare approach.

And I might add that being able to add the value of food stamp coupons to an AFDC workfare program is not as attractive as it sounds on the surface. Because we get impact out of our community work experience, our welfare program for AFDC recipients, without getting into the complexities of how many more hours could they work if the coupon value were figured in?

We are getting good results in moving people through workfare experiences and into regular jobs. And up until now at least, we have not seen any particular gain from being able to add the food stamp piece to that.

On the work subject, there is a problem relative to human services agencies or welfare agencies pick up the work search leadership. We were offered a contract, as I guess many other States were, offered to do this in lieu of the employment service. But again, the timeframe that the money was available and the terms were not very attractive. Again, with our plate being full already, it did not seem that we were particularly ready to take that on.

On the proposal in the Dole-Domenici bill to require a rebate of sales taxes on food purchased with food stamps, we would have a great deal of a problem with that in Oklahoma. The Department of Human Services in Oklahoma receives almost all of the State money through 2-percent State sales tax. That money is proceeded right back into helping low-income people through many, many programs. And to require the State to make a rebate on food purchased with food stamps would simply mean that we would be taking out of one category of assistance of low-income people and putting it in effect into another. And we would be opposed to that proposal.

In the McClure bill, S. 1727, there are a number of proposals that I would not support, for example, the proposal to reinstate the purchase requirement. I think we have passed by that discussion, and really it would not be a good thing from the standpoint of the administration or the impact on people to reinstate the purchase requirement. We are trying to cap the eligibility of some relationship to the poverty line.

There may be a desirability of looking at the benefit reduction rate as income goes up. But to establish some cliff over which people would fall when their income passed a met point, I don't think is a good idea. So I would not support that.

On the question of I.D. cards, so far at least in our look at that, we don't think we would gain enough from it to make the cost worthwhile. The real question on that is, how effectively does the use of I.D. cards get enforced at the local level where the people are cashing in the food stamps without using them to buy food? We have a lot of skepticism about whether you would find that kind of effectivenss. And it certainly would increase the complexity of the program.

On the Helms bill, S. 1993, on the food stamp integrity and accountability, trying to force the States through an arbitrary tolerance like 3 percent to basically manage the matter I think is counterproductive again. It has not been shown that that level is realistic.

What would happen is that basically the Federal Government would force the States to pay a bigger share of the cost of the program, the administrative costs of the program. And so I would not favor that.

On some of the other issues, the question of household definitions, I do think there needs to be more State applicability on that. That might be possible to rationalize that with the AFDC program a little better at the national level.

On the other Helms bill, S. 1279, nutritional programs block grant, I am probably in the minority among the States on this question. Several years ago, when I was working for Senator Bellmon, I helped him make a proposal to introduce a bill on this subject. I do believe that there ought to be at least a pilot—series of pilot programs under which States would develop block grant proposals. There is a lot of complexity around that.

In our State, for example, the WIC program is run in the health department. Of course, the food, nutrition school literature, nutritional programs, and the education department run through them. We do handle the commodities distribution for that program at the department of human services.

But there is a tremendous amount of difficulty within any given State to put together a comprehensive nutrition block grant. It would take some prolonged leadership from the Governor's office to get it together.

So I would think that what ought to be attempted is basically the same concept that Senator Bellmon had in his bill several years ago, which is to run three to five pilot programs, maybe at least a couple of them statewide in some States that could get it together, some others perhaps at the county level with State action to pool the money so it could be run into block grant kind of code, and see how we do at it.

It is not something that is going to produce remarkable results real quickly. In my statement, I talk about the error rate sanction. Again, I will not go back on that in detail, but there is a reality that the States doing as well as they can with management about the error rate coming own, we still have a relationship with the Federal Government in which many of the rules are written in Washington, the complexities would change, things that contribute to error, out of here. And I think recognition that we are all in this together is sometimes lost up here.

And we are getting in results with all this pressure. But to actually take money from a State like ours at a time when we have got our error rate coming down rather sharply is not going to help us, because in our financial situation, if we lose the money from the Federal Government, it will probably come out of the level of staff that we have out in the field administering the program. It is not going to be absorbed because we are in a very tight financial situation.

With respect to budgeting, we have been able to work with USDA to minimize the effect of that. But I am told still to this day even with roughly four-fifths of our households exempt, that that probably requires as much as 20 percent of our staff time in Oklahoma to run, because we have to follow up on so many nonreported cases, take people off the rolls, put them back on. And we are still having lots of difficulty with that.

In conclusion, I will just go back to the point I started with, that we need creative stability. We ought to make improvements in the program, but we ought not to rush into them. The Food Stamp Program I think has been very successful in achieving its original purposes. It is a good program, it is the one program we have that really does amount to kind of a universal assistance program in that it does not put people into categories like AFDC or other programs do.

Basically to judge whether somebody is eligible is based on income and resources.

And it is a very important part of a nation's response to poverty. I think the program is really run better now than it was in the past. And if we can have a period of stability and improved relationships between the State and Federal Governments, I think we will be able to build on what is already there as a very fine program.

Thank you very much, Senator Cochran.

Senator **Cochran**. Thank you, Mr. Fulton, for your excellent statement and your overview of the situation in Oklahoma and the observations you have made about some of the pending legislation that we have before this committee.

I was particularly interested in the comments that you made at the end of your statement about the monthly reporting and respective budgeting. I recently had an opportunity to meet with a county administrator about the Food Stamp Program along with some mention of our State advisory committee, and the person you referred to from your State who represents to the national organization, Mr. Roark to discuss that, along with some other problems that confront those who are trying to administer the program on a daily basis. The 25 percent of staff time being taken up by monthly reporting and retrospective accounting, I think, is quite significant and ought to be taken under consideration by this committee, particularly when, as you say, four-fifths of all the beneficiaries of the program are exempted from it.

Is that under waivers that have been granted by the Department of Agriculture?

Mr. **Fulton**. Yes, yes.

Senator **Cochran**. What other categories falling under the waiver have been granted in your State. And why is so much staff time required to deal with only about 20 percent of the recipients under this program?

Mr. **Fulton**. Well, let us see, we have got exemptions on the AFDC and SFI recipients. We have got exemptions on those, I believe, that are drawing unemployment insurance.

Forgive me, but I do not remember all the categories of exemptions. The others are simply that those things come flooding into the county offices, and so many of them require followup time. A lot of the adjustments are—I might say are upward.

We pick up income that results in the food stamp benefit going up. We pick up income reports. And so a good part of that 19,000 cases that come in require some change. But before you get to that point, you have to chase down the reports.

We have got a lot of people filing notices of termination because they do not report. They come back in and file—perhaps they come in before they are actually knocked off assistance.

A very frequent phenomenon is they do not come back before they are terminated, they then have to file a new application.

So we have a lot of this up and back on phenomenon when they still meet the requirements. Maybe they moved and the post office forwarded the notice and we do not know they did not get it.

But they come and say I did not get the notice, or I lost it, or I was going to come in and my car broke down, dozens of other reasons why they did not get in with their income report on time.

So you have the nonreporting problems and then these other things that flow from that. And then you have the reality that little changes occur in a very high percentage of these 19,000 cases each month. And you have either got to increase benefits, cut benefits, in some cases you have to go out and verify that what they have reported is valid because something does not look accurate, it looks inconsistent with something else in the file. It is just a whole series of things that spin around this group of people in the caseload.

Senator COCHRAN. In your statement, you indicate that a cost survey done in your State showed that administrative costs resulting from monthly reporting and retrospective budgeting may be as high as $3 million per year in the Food Stamp Program alone. I wonder if anyone has tried to figure out whether this requirement on the States is cost effective in the final analysis.

You mentioned that some changes made result in a beneficiary actually getting more benefits than he would have gotten had you not been required to come in and do the monthly report and retrospective budgeting. Has anybody tried to do that?

Mr. FULTON. I am not aware of a good national study on that. But I am hearing similar comments from a lot of my colleagues that they believe in the end it is not going to save very much money if any. It is conceptually a sound notion to have income reports just as current and accurate as you can possibly get them.

Senator COCHRAN. I was also interested in your initial comment about being cautious in making changes. Sometimes we get hyperactive here in this town about legislative and regulation changes, and we just bring the administrators to a standstill reviewing changes and trying to assimilate the new law, the new rules, and then make that applicable in the real life situation in the day-to-day administration of the program.

So I tend to agree with you.

Although there may be some changes that we identify in these hearings that should be made, it probably would be wiser, according to your suggestion, for us to wait until next year before we come in and make any changes?

Mr. FULTON. Well, I think unless it was either a relatively simple matter or very important one, which I am not aware of either, we should wait. One of the things that sent shudders through the States is the so-called Williams regulations, which are some 300 pages of new administrative rules that I understand have been on and off with the executive branch. Having something like that drop onto the States at this time would be what I think really counterproductive because it rewrites so many of the rules in the program, procedures in the program, that it would really set back our efforts to tighten up on our work.

Senator COCHRAN. When monthly reporting and retrospective budgeting was operational back before the first of the year, to what extent did you use it?

Mr. FULTON. Well, OK, I was not really there at the time that decision was made to not use it. But if we have the option, again my view would be to try to go on a very tightly defined error-prone kind of approach. I think some use of monthly reporting would be an appropriate tool.

Senator COCHRAN. What about AFDC?

Mr. FULTON. Well, in AFDC as time has gone on, we have gotten that working fairly well. Of course, we don't apply that universally even at AFDC. For example, on a nonadult household where a child is living with a relative or something, we are not required by the AFDC program. We have some problems there. But they are as serious as they are in a Food Stamp Program. It may be in part a function of having been at it longer, but it is working somewhat better.

Senator COCHRAN. Are there any specific regulations that you know of which you have strong objections at this point? We would like to keep the program as tight as possible, but we do not want to make it so burdensome that it is impossible to administer it.

Mr. FULTON. I think those in my statement, most of which I have already talked about, are the ones that would be of most concern to us.

Senator COCHRAN. You mentioned too the job search problem, trying to make sure that people who are able bodied are looking for work. And the requirement that they actually sign up at the employment office is one that has been on the books for quite some time.

Most of the studies have indicated that this job search is one that is the responsibility of the State in their grants for that purpose.

Has Oklahoma taken advantage of any grant money for trying to improve or establish a job search?

Mr. FULTON. I alluded to that in my statement, Mr. Chairman. There is a problem around those grants from USDA. As I get the picture, the relationship with the employment service and the department of labor on the subject has not been developed as well as USDA had hoped. They came out in the States, at least some of the States, within the last 16 months and offered grants of contracts for the welfare department themselves to run job search programs like we do now. There were problems in that regard. We applied—Oklahoma applied many months before USDA got around to offering the actual contact. When they did offer the contact, they offered it at a point in time in which they could only ensure about 3 months of funding.

They also offered it at such a low level that we could not operate the program statewide. And we felt because of the way we had run the AFDC program and the need to put job search with it, that we ought to be able to run it through on the State. And the impact of our hopefully success would be in Federal dollars in terms of reducing the coupon payments.

It seemed to us that if the Federal Government was serious enough about this effort to put a special grant in that it should put it in on terms with sufficient funding that would make it have a reasonable probability of success. Again, you have to look at it from the standpoint of at least our State being under a lot of financial pressure, and looking at all the things we need to do, and spending our money to do job search for food stamp recipients not very attractive.

Senator COCHRAN. Do you think we should act this year on some of the President's task force proposals such as the 1-percent restoration to the thrifty food plan or raising the asset limits? These would mean changes in benefit levels and not just administrative changes.

Mr. FULTON. Well, I would not have a problem with that. I think in terms of saying that it is a life or death matter with the Federal Government's financial situation, I would have to be a little bit reserved. It would be desirable to do it as soon as we can. As far as it being an urgent matter, at least in Oklahoma I do not really see that it is.

Senator COCHRAN. You have been an excellent witness and have been very helpful to the subcommittee. We appreciate your being here, and we thank you for taking time to develop your statement and respond to our questions and help out in this way. We appreciate it.

Mr. FULTON. I appreciate it.

Senator COCHRAN. Thank you very much.

ADDITIONAL QUESTIONS SUBMITTED TO MR. ROBERT FULTON BY SENATOR JESSE HELMS, AND ANSWERS THERETO

Question 1. You indicated that the work registration process in Oklahoma is currently a "meaningless paper exercise". Work registration, job search, and actual employment are supposed to be important objectives of the food stamp program. Why is this not a meaningful procedure in your State?

Question 2. You expressed objections to the new procedure requiring the use of monthly reporting and retrospective budgeting for certain food stamp households, and urging that this requirement be made optional at the discretion of each State. To what extent prior to January 1, 1984, when this provision was optional, did you use monthly reporting or retrospective budgeting?

Question 3. For what categories of recipients are you using monthly reporting/retrospective budgeting?

Question 4. As you know, the monthly reporting and retrospective budgeting requirement provides that States may seek waivers for categories of participants for which the provisions may not be cost effective. What groups of recipients are being maintained on monthly reporting/retrospective budgeting that you feel are not cost effective?

Question 5. What is the basis for your assertion that monthly reporting/retrospective budgeting is increasing errors in the food stamp program?

This replies to your letter of June 15, 1984 which posed questions dealing with Work Registration and monthly reporting/retrospective budgeting in connection with the testimony I presented on April 30, 1984.

I agree with you that Work Registration, Job Search and actual employment are supposed to be important objectives of the Food Stamp Program; however, in April 1982 Job Search in Oklahoma ceased because of a funding dispute between the Department of Labor and the Department of Agriculture. We believe most able bodied unemployment Food Stamp recipients can be assisted to become gainfully employed through structured Job Search and DHS did attempt to reinstate Job Search in 1982 by applying for a Job Search contract from Food and Nutrition Services. See page 7 of my testimony for a description of the futility of that effort. We have recently submitted another application for a Job Search contract—FNS is offering $406,638 to Oklahoma for FY'85. With this amount of funding, we will be able to administer Job Search in 10 of our 77 project areas which will cover 45% of work registrants in Oklahoma. As you can see from these figures, a higher level of funding must be devoted to Job Search so this important objective of the Food Stamp Program can be fully realized.

Prior to January 1, 1984, monthly reporting/retrospective budgeting was used on all AFDC households. We acknowledge that USDA has granted a number of waivers to lessen the impact of monthly reporting/retrospective budgeting and the State of Oklahoma has taken advantage of a number of such waivers. However, monthly reporting/retrospective budgeting is currently generating 18,000 Non Public Assistance monthly reporters. Cost surveys done in Oklahoma indicate that administrative costs resulting from monthly reporting/retrospective budgeting may be as high as 3 million dollars per year.

While the concept of monthly reporting/retrospective budgeting is to give an accurate case file it presents a problem when up to 70% of your cases require a case file update. As these monthly case file updates are processed, more mechanical errors are bound to occur.

This is the basis for my statement that monthly reporting/retrospective budgeting process is extremely difficult and error prone.

Senator COCHRAN. Our next witness on the agenda is Richard Nathan, who is a professor at Woodrow Wilson School of Public and International Affairs, Princeton University, Princeton, NJ.

Mr. Nathan, welcome to the hearing.

Mr. NATHAN. Thank you.

Senator COCHRAN. We thank you for being here.

Let me say that at the beginning of the hearing I mentioned that Senator Dole was not here. He is back on Capitol Hill now and is on the floor of the Senate. He will come to the hearing room after our next vote and chair the remainder of this afternoon's hearing.

I mentioned that he would probably have a statement for the record, and that has been handed to me. It is an excellent statement. It prompts me to say that he has really given a tremendous amount of leadership in the Senate in the food stamp and nutrition area. As chairman of the subcommittee, he is the person many of us look to for leadership in this area. I would invite everyone's attention to the statement that will be a part of the record of this hearing because it is an excellent summary of some of the oversight efforts of the legislation that resulted particularly in 1981, regulation changes that were also brought about as a result of efforts of this subcommittee. I mention that because it does appear to me to be an excellent statement.

Speaking of statements, Mr. Nathan, you are invited to present a statement to the committee. We would encourage you to make whatever summary comments you could from your prepared statement. We have made your written statements a part of the record in its entirety and hope that you can summarize it for us.[1]

You may proceed.

STATEMENT OF RICHARD NATHAN, PROFESSOR, WOODROW WILSON SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS, PRINCETON UNIVERSITY, PRINCETON, NJ

Mr. NATHAN. I will do that. Let me start by saying that I second your comments about leadership that Senator Dole has given on this issue. I have had a chance on a number of occasions to discuss these matters with him. I have always found that to be very useful.

I am going to summarize and just give highlights of my statement so that I can stay within the time.

As someone who has worked on domestic and social policy issues for a long time, I believe it is important to say a good word for a social program when the circumstances warrant it.

I am therefore pleased to testify today, because in my view the Food Stamp Program is one of the most important, fair, and efficient social programs of the Federal Government. The Food Stamp

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[1] See p. 272 for the prepared statement of Mr. Nathan.

Program enables millions of Americans to improve their health and nutrition and obtain a more adequate diet.

It has a strong work incentive. Its administration has been tightened and greatly improved.

The Food Stamp Program is also a good economic policy instrument.

It is countercyclical.

It aids people who are out of work in recession periods, which is when expenditures for this program are highest.

On the other hand, spending for food stamps declines when employment rises and the economy advances.

The Food Stamp Program has an important role in the Nation's overall welfare system because food stamps reduce the disparities in welfare payments among the States.

Any social program that grows so much and so quickly and is so visible in every community and thousands of supermarkets is bound to be controversial. The Food Stamp Program is controversial. The result is that a series of changes has been made recently to cut eligibility and costs and to tighten administration by reducing errors, fraud, and abuse.

However, despite these changes and administrative improvements, the controversy goes on. It seems that every year we come to this same precipice for the Food Stamp Program.

It is in this context that I believe it is important for people who support the Food Stamp Program to say a good word for this good program.

In 1981 when the Reagan administration took office, the President moved with lightning swiftness and alacrity to shift national priorities—increasing defense spending and cutting spending for domestic programs, especially social programs.

Despite what David Stockman said that the cuts in domestic programs should involve an equitable sharing of the burden, William Greider in the Atlantic magazine wrote that "Stockman was disappointed with the 1981 legislation." He said, "Weak clients suffered for their weakness."

The cuts made in 1981 in the Reconciliation Act fell heavily and disproportionately on the poor, particularly on the working poor, a group that President Reagan as Governor and as President has consistently sought to wean away from welfare dependency. The Food Stamp Program was one of several programs cut in 1981. It was cut again in 1982. Over the 3-year period, 1982 to 1985, it has been estimated by the Congressional Budget Office that food stamp spending has been reduced by $7 billion due to legislative changes.

At this same precipice where there was discussion of the Food Stamp Program, in fact in this same hearing room in 1982, I spoke with the committee about ways to reduce spending under this program. The changes made in the 1981 act cut $1.7 billion out of the program. In my view it is greatly to the credit of this committee and to its chairman, and you mentioned this a minute ago in citing Senator Dole's work, that the changes made by the Congress in 1981 and in 1982 ended up being much less serious and severe than the cuts originally proposed by the administration.

All of the budget cuts made in 1981, as it will be recalled, hit State and local governments as the sharpest and deepest postwar recession was occurring. This meant that States and localities strapped for revenues by the recession could do relatively little to restore budget cuts or aid the poor or the newly jobless.

We have been conducting a study at Princeton of 54 governments, 14 States and 40 local governments, on the effects of the Reagan cuts and policy changes in 1981. The one program area that stands out in our study where the greatest amount of new social program activity occurred was feeding programs, both kitchens that served meals and food dispensaries that give out bulk food. In both cases these programs are often administered by local religious and other nonprofit organizations. Private firms contribute to these efforts.

While research is very difficult to do in this area, there is evidence that the social program mix of the country has shifted away from federally aided and open-ended public income-transfer programs—both cash and in kind like food stamps—to more sporadic emergency programs like local feeding programs and shelter programs which are highly dependent on local and private financing.

This is one area where there is evidence that what the President wanted has happened. The private and voluntary sector is doing more. The response is not just a response to the cuts in the Food Stamp Program—the cuts as indicated were not that deep—it is in response to the recession, to the cuts in a range of publicly funded social programs, and in larger terms to demographic change involving the character of families and attitudes about family responsibility.

The essential point—and I underlined this in my testimony—is that in this kind of a setting, further cuts in the Food Stamp Program are not well advised.

Let me shift gears to the current legislative situation as I see it.

In response to a growing concern about hunger in 1982 after the 1981 cuts, this was 15 years after that original CBS documentary in your State on "Hunger in America," the Reagan administration set up a task force on food assistance. The task force issued its report in January of this year. It is a Januslike report, it looks in two directions at once. It looks back to the idea of a block grant which the Reagan administration has already rejected once. The task force supports the block grant approach, which is also embodied in legislation before this committee introduced by Senator Helms.

The task force report also makes a number of suggestions to increase benefits very modestly—and you mentioned some of these changes earlier—in order to change what were identified by the task force as rigidities or desirable features of the Food Stamp Program as presently structured.

A number of bills have now been introduced in the Senate which fall into three categories:

Block grant bills.

Bills to cut the program.

And bills to adopt provisions of the task force other than the block grant proposal.

It will come as no surprise to this committee that my strong preference is for the third category, that is the task force revisions which deal with current inequities and rigidities. I believe that the idea of a block grant for food stamps is wrong, bad, and backward.

It is bad economic policy and bad social policy. It is bad economic policy because it would place a huge burden on States and localities and private charities in recession periods. It is bad social policy because it would fragment the Nation and lead to a greater diversity of treatment of social needs that would enable the States that want to do so to pursue social policies to keep out or push out the poor, even if these are the States where new jobs are being located. It would at the same time place a heavier burden on those jurisdictions, State and local, that want to maintain adequate or near-adequate standards of assistance for the poor. The block grant idea in my opinion should be rejected again.

In contrast, I hope the committee will find a way to consider the other changes, the third category, in the task force report. I do not go into these changes in detail in my statement, but I am prepared to discuss them if that would be helpful. These include features that would, for example, restore the thrifty food plan, restore the 20-percent disregard for earnings, revise the assets test, simplify the treatment of welfare households—the so-called categorically eligible—and change the requirements for a permanent dwelling.

I want to add one point. Some of the pending bills make a change that I would categorically reject, and that is to restore the purchase requirement, which as I indicate in my statement, was eliminated in 1977. I think it was very important and right to do this. The elimination of the purchase requirement was a step forward in terms of the efficiency and fairness of the Food Stamp Program. It would be a great shame to reverse that action in the name of budget cuts at the time when the heaviest cuts have already fallen on the poor.

I won't read the final section of my testimony which is about workfare, Mr. Chairman. But you might want to look at it and include some of this information in the record. It is about a study by a corporation called the Manpower Demonstration Research Corp. to test the workfare provisions of the Reconciliation Act of 1981 in eight States. We think that workfare—and this is what my testimony says—is more important as a proposal relating to AFDC, where you have large benefits and deeper dependency, than it is as a feature associated with the Food Stamp Program.

I think that information might be of interest to the committee. I think it is important in considering workfare to consider the relationship between AFDC and food stamps in deciding whether and how we could adopt this kind of fundamental change, which indeed our research program may show to be desirable.

Thank you very much, Mr. Chairman.

Senator Cochran. Well, thank you, Mr. Nathan.

I neglected to mention when I was introducing you that you have served as an Assistant Secretary of Health and Human Services. It may have had a different name then.

Mr. Nathan. It did.

Senator Cochran. During a previous administration you were a specialist in income maintenance policy. We especially appreciate your being here today and the excellent statement you have provided the subcommittee.

I also think it is appropriate to include in the record following your testimony this report entitled "Work Fare, the Impact of the

Regan Program on Employment and Training," from a conference sponsored by the National Council of Employment Policy, dated June 17, 1983.[1]

We notice you were one of the four panelists included in this report. This is a good thing for us to have in our record. We appreciate your bringing that to our attention.

It is interesting to have your observations about the block grant proposal and some of the other suggestions. It is your opinion that some of the things are so important that the committee ought to undertake a session where we seek to put out legislation to implement some of the findings, particularly the part 3, category 3 you refer to there, which would in effect make more abundant the benefits of the Food Stamp Program?

Mr. NATHAN. I listened to Robert Fulton, the previous witness, when you asked him this question. He said from the point of view of his State, Oklahoma, he felt that while these changes are important, he did not feel that they were urgent to do this year, and indeed that it might be better to wait until, as I understand it, the authorization law is up again next year to open up the questions that the task force raised.

I am not as close to this program at the State level as other witnesses, but I was impressed with what Mr. Fulton said, that it might be better to wait until next year.

Senator COCHRAN. I remember being in the House of Representatives as a member of the Public Works Committee—a very exciting duty. Actually one of the things we had jurisdiction over was the Waste Water Treatment Program and a very important program nationwide to clean up rivers and streams and try to help towns and communities who could not otherwise take care of discharges in the rivers and streams or build facilities.

A big omnibus nationwide program of Federal assistance was enacted to help achieve those goals.

The projections in the construction had been that construction of the facilities would grow at a pace, and someone had charted that out in graphs. As we looked at it in oversight hearings a few years after the law had been in place, we saw the actual construction of these facilities was not moving as had been projected. So we decided to make legislative changes in the program and require EPA to issue some new regulations and let us get these things built.

We did that. And instead of increasing the line on the graph, the new laws and the new regulations caused a downturn in the construction of the facilities because everyone had to stop what they were doing and read the new regulations, and then implement all these changes that Washington had made, whereas if we had done nothing and just left the program alone, people would have finally been able to accommodate to it, and probably we would have had a lot more facilities built in a shorter period of time if Congress had just let it alone for a little while.

Well, that is to just illustrate how I think sometimes we can, with the best of all intentions here in the Congress frustrate local administrators to the point where they cannot do anything. We can absolutely immobilize an important program by acting too often.

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[1] The above referred-to report has been retained in the committee files.

So, I know what Mr. Fulton was talking about having seen the experience that so many States, including mine and everybody else's, had in the effort to comply with EPA regulations on waste treatment facilities.

Well, I do not know how we got on that other part.

Mr. NATHAN. It is a good comment for food stamps because, as the President's task force points out, since 1964 the program was legislatively changed in 1969, 1970, 1973, 1977, 1979, 1980, twice in 1981, and then again in 1982. So if ever there was an analogy, it is this program. I think your point about stability—Mr. Fulton made this point too—is a very important one. That might warrant holding up on even some desirable, but not major, changes until the authorization legislation comes up in the normal course. I think I would agree with you.

Senator COCHRAN. One theory too is that every 2 to 4 years everyone who has been in Congress has run on the platform of welfare reform. So everybody that gets elected comes to Washington to do something about welfare; either it is not fair enough, it is not generous enough, or it is too generous, it permits fraud and abuse. And so from whatever constituency a Member comes, he or she comes here with a desire to get involved and to do something to help clean up the welfare problem or improve or whatever. That is another problem.

I think what we have seen here is a lot of attention being paid to this and a lot of legislative action, some of which has not served the interests of either the taxpayer or the welfare beneficiary or the food stamp beneficiary in this case.

Mr. NATHAN. When I was in the Government from 1969 to 1971, we used to talk about the welfare mess as "the Mount Everest of politics," that everybody has to come to Washington to climb that Mount Everest. These programs are constantly in flux. And people have some hairbrained schemes. Stability is important, and good sense is vital.

Senator COCHRAN. Well, you have been very helpful to the committee and I think your statement has been excellent.

Now we have the chairman here. We created a lot of problems while you were gone. This is Dick Nathan from Princeton University.

Senator DOLE. Hello.

Senator COCHRAN. Excellent statement.

We thank you for being here and for your contribution to the hearing.

Senator DOLE. I have not had a chance to read your statement. Have you set out some recommendations in there?

Mr. NATHAN. Well, Senator, I indicated in my statement that there are three different types of bills. One is the block grant bill, another is bills that would cut the program, and the other is bills to adopt some of the provisions of the President's task force, not the block grant, but the other provisions, and not including the error rate changes.

I said in my testimony that that third category, the revisions in the task force report that are modest and desirable changes to deal with rigidities and inequities, ought to be made. We discussed whether this ought to be done this year or next year in light of the fact that the Food Stamp Program comes up for authorization next year. While these changes are important, maybe they should wait. They are not that critical. We ought to have some stability—that would be nice for a change—in a program that has been so riveted with changes in policy.

Senator COCHRAN. Thank you very much. The next witness is Peter Breen from Marin County Welfare Department, San Rafael, CA.[1]

STATEMENT OF PETER A. BREEN, DIRECTOR OF MARIN COUNTY, CA, WELFARE DEPARTMENT AND CHAIRMAN, NATIONAL COUNCIL OF LOCAL PUBLIC WELFARE ADMINISTRATORS, AMERICAN PUBLIC WELFARE ASSOCIATION

Mr. BREEN. Good afternoon, Mr. Chairman. I am Peter Breen, director of the Marin County Welfare Department. I also serve as chairman of the American Public Welfare Association's affiliate organization, the National Council of Local Public Welfare Administrators. I am pleased to appear before you today to speak on behalf of myself and over 1,800 local administrators represented by the council nationwide, about proposals to amend the Food Stamp Act.

As local administrators responsible for programs serving the needy and disadvantaged, we are probably best able to observe and report directly to you from the local perspective, changing conditions affecting the people we serve, long before a problem of national scope emerges. We have and are seeing firsthand the steady and painful increase in poverty over the last 5 years. Local administrators have continued to experience and report increasing demands for assistance from growing numbers of people, including the new poor, people who have heretofore never needed nor wanted nor sought Government assistance.

We are also troubled by the large number of food stamp recipients who run out of food long before the end of the month and in some cases go without. In my county with the second highest per capita income of $12,525, after Arlington, VA, our food stamp caseload is 3,685 persons. Our soup kitchens serve 150 meals daily and our food bank distributed 300,000 pounds of food in 1983.

In 1981 and 1982 Congress made significant changes in the Food Stamp Program. We supported some of these changes because administration of the program was made easier and less prone to error and abuse. I might parenthetically add here that we are personally appreciative to you, Senator Dole, in preventing passage of the more onerous proposals to drastically cut benefits. However, we now realize that some cuts which were made went beyond the congressional intent of cost control and benefit targeting and resulted in benefit reductions that have seriously eroded the Federal food assistance safety net.

And despite inability to statistically validate the existence of hunger nationwide the President's task force on food assistance found significant evidence of hunger and recommended ways in which the problem might be addressed. We local administrators believe that part of the solution to this current national delemma is through immediate restoration of benefits cut from the Food Stamp Program since 1981.

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[1] See p. 279 for the prepared statement of Mr. Breen.

At this point and in view of next year's reauthorization, we certainly do not suggest massive program changes that would alter the basic way the program operates. Instead, we suggest that household benefits should be based on a realistic recognition of economic realities affecting the poor and the poor alike.

I will briefly identify and highlight those changes that we as local administrators believe that immediately improve the responsiveness of the program. These proposals, which are recommended by the President's task force on hunger, would not appreciably alter or increase the cost of the program administration, but are critical if the adequate national nutritional supplement is to be provided and maintained.

First of all, household allotments should reflect the full value of thrifty food plan. Now, this is a little bit in disagreement with the prior speakers in that they felt it might wait until the reauthorization. It is my personal belief that hunger cannot wait for reauthorization and that we have to do something. And it would not involve the massive administrative or bureaucratic change. It would in essence be a table change.

Second, the earned income deduction should be restored to its pre-1981 level of 20 percent. It is our experience that the working poor families are proud of their employed status and earnestly wish that their income was sufficient to allow them to avoid the need for food stamp supplementation. However, this is not always the case. And their efforts to work should never be discouraged.

Having met other stringent income eligibility standards, the current 18-percent deduction makes it all but impossible for them to bear the cost of working. What with the cost of transportation, of clothing, union allowances, payroll taxes, and so forth.

Fairness in our view really demands that Government not penalize those who are legitimately employed but at the near poverty level. Moreover, a policy that in fact makes it counterproductive to work has long-term work implications for future generations of our most at-risk citizens.

In short, we need to remove the barriers to eventual self-sufficiency.

Third, we would recommend that the asset limits for individuals be raised from $1,500 to $2,250, and for the elderly from $3,000 to $3,350. In addition, the allowable value of the nonexcluded vehicle should be increased from $4,500 to $5,000.

Increasing the asset limits by these small amounts will not permit participation by families possessing more than the most meager resources. After more than 10 years without change, the current ceilings do not represent a realistic appraisal of the resources even that the poorest may have on hand.

As a result of current regulations, households, most noticeably the new poor who are often ineligible due to assets such as an automobile cannot be readily converted to full and real cash.

Fourth, Federal funding for the aid to the homeless must be continued. Thousands of people across the country right now have no place to call their home for more than a night or two. Our members report that the problem of homeless is growing, creating a host of new demands for services which are straining government and the private sector's resources to and beyond the limit. In fact, what we are seeing is reminiscent of the Depression era. Along with drifters and alcoholics, the homeless now include intact, job-seeking families: Public and private efforts to meet these needs would never have been adequate without Federal assistance provided under the 1983 Jobs Act.

In my county alone funds from Public Law 98-8 were influential in establishing a shelter for 30 persons per night. One hundred fifty still remain on our streets each night.

On another related issue, it is my personal belief that States should retain the option to make food stamps available to persons without a stable address. On this particular issue, I am not sure what the position of my colleagues nationwide would be. But as an administrator of the human services programs over the past 20 years, I am strongly and personally committed to the fact that program benefits must be extended to all eligible persons.

So far my statement has chiefly talked about legislation that would immediately restore benefits. I would like to address for a moment a few proposals that we believe, the local administrators, merit careful consideration by your subcommittee and the Congress. We support allowing States to operate a community work experience program in which recipients may be required to engage in training or to work in public or nonprofit jobs in exchange for food stamps. This option is currently available in the AFDC program. Many States and localities such as San Diego County, CA, have taken advantage of this important step to self-sufficiency. We believe the same would apply in the Food Stamp Program.

A minor issue, but local administrators have supported for some time, especially since the beginning of the monthly reporting, local administrators have been concerned over the stress experienced by workers due to first of the month activity, especially with monthly reporting. Often a crisis-like atmosphere pervades local offices at this time. Especially in areas where staggered insurance has been tried, such as in Fresno County, CA, we find that workloads are lessened, mob scenes are avoided and fewer errors are committed.

In addition, I would like to address our concerns about proposals to establish nutritional assistance block grant in place of the Food Stamp Program. Local administrators are strongly opposed to a block grant approach to nutrition which would destroy standards, national benefits, and weaken the national commitment to end hunger and malnutrition. The Food Stamp Program is the one piece of safety net that rests upon national eligibility benefit standing.

A block grant could easily result in 50 different programs, thus undermining your commitment and continued support for the basic nutritional component of the incomes security system. A person's nutritional needs do not vary by State, town, or region. For this reason, program benefits were wisely based by the Congress on the average food cost for the country as a whole.

In closing, I would like to briefly address the issue of error rates. Some Members of the Congress and administration are urging a lower error rate tolerance than in current law with more stringent sanctions to be employed. We are opposed to these proposals as a disruptive unnecessary, and counterproductive means of shifting the cost to the States and the counties. Error rates in the Food Stamp Program are declining due in large part to corrective actions at States and localities that are aggressively implemented in the absence of distractions of new legislative changes in the past year. States and localities are making significant progress in their efforts to reduce errors. A 5-percent reduction will be reached in 1985 by many States. Even in the current 5-percent limit for fiscal year 1985, California's sanction will be $18 million. There is no evidence that reducing that 3-percent error rate is a realistic expectation.

Another concern for us in this area relates to the system used to address State performance, the quality control system used to determine State errors and hence penalties is unfair and unreliable. We believe if States are to be held liable for errors, the defects in existing quality control procedures should first be corrected.

Attached to my statement is legislative language proposed by the States and localities to temporarily suspend under AFDC and medicaid. The House Ways and Means Committee is making up AFDC legislation earlier this month and agreed to this proposal, that a suspension would not forgive penalties but would hold them in abeyance until the necessary improvements are made. I hope the Agriculture Committee will seriously consider this proposal for food stamps.

This concludes my statement, Mr. Chairman. Thank you for inviting me as a local county administrator here before you today. I would be glad to answer any questions you might have.

Senator **Dole**. I am sorry I missed the first two witnesses, but I guess the question is whether we are going to try to do anything this year—whether we should. I think you probably made a point that there may be some areas we should touch on. I do not disagree with that. But once you open up a program, you just cannot say I want to make sure we take care of the good parts. What I think are the good parts others may not like at all, and I think we are aware of that concern.

With reference to error rates, there may be a better way to address the problem. I think we may not have approached it properly. If you picked up Business Week magazine last week, it says that right now many of the States are suffering from budget surpluses. That is not a problem at the Federal level—we have huge deficits. It just seems to me that States have to have some investment in some of these programs to really make them work.

I have just briefly looked at the language on AFDC and medicaid. We did not do that in the Finance Committee, for example, for AFDC. What has happened to this bill? Was it reported out of Ways and Means?

Mr. **Breen**. Yes, I think so. I think what we are looking for is a moratorium so we can indeed make a study to make it more fair, more adequate, and appropriate in reviewing. In other words, there are different reviewing procedures, the timing is very slow, States and counties are having a tremendous amount of difficulty from a local perspective.

If indeed Congress sanctions $18 million in the Food Stamp Program, California is not going to suffer. I am going to suffer and my board of supervisors is going to suffer. In other words, we are not trying to dump it on the States, we are willing to share. But we need a process and program that is reasonable and rational.

I think that States and localities are really committed to error rate reduction as has been seen by continued reduction of error rates in the past couple of years.

Senator DOLE. Yes. Last time when the Governors were here, their big complaint was reducing the Federal deficit. But before each Governor left town, he made sure to contact us to ask for more money for this program or that program. They cannot have it both ways. They cannot denounce the Federal deficit and ask us to supply more money and not participate more themselves.

Mr. BREEN. Right. Because our folks are at the doorsteps, not the State legislatures.

Senator DOLE. I appreciate your testimony.

Mr. BREEN. Thank you.

Senator DOLE. We are trying to take an objective look at where we need to go with this program. There are a number of bills floating around, and some would make rather drastic changes in the present program. You know, there is a conscientious effort by certain Senators to see programs in different ways.

I think we have made some progress in the food stamp program in recent years, but we have to be very careful about any further changes. I think the one you suggested might be one. I do not think any of you would object to that. It is a task force recommendation.

Mr. BREEN. Yes, it is.

Senator DOLE. There may be some indication the White House is not very enthusiastic about that task force recommendation. That is kind of hard to beat.

Mr. BREEN. Thank you very much, Senator.

[The following material was subsequently received by the subcommittee:]

ADDITIONAL QUESTIONS SUBMITTED TO PETER A. BREEN BY SENATOR JESSE HELMS AND ANSWERS THERETO

Question 1. You indicated that you felt some reforms of the past several years had resulted in "benefit reductions that have seriously eroded the Federal food assistance safety net." To which specific changes do you refer?

Question 2. What is the basis for your statement that the existing 18 percent earned income deduction makes it "all but impossible" for recipients to bear the cost of working? At the time this provision was adopted, information demonstrated that work expenses were well below this level.

Answers 1 and 2. The 130 percent rule is inequitable in that it does not take into account the geographic variations in living costs. Although most entry level jobs throughout the Country begin at the Federal minimum wage, the costs of child care, transportation, utilities and housing fluctuate radically. Consequently, although it may be possible for a family in North Carolina to manage on a gross income which is 130 percent of the food stamp benefit level, it is simply impossible for the same family to live in Marin County, California, on that income. The 18 percent income deduction suffers the same problems with geographic variations in living costs that the 130 percent rule does.

Because of the above problems and the allotment reduction to below the full value of the Thrifty Food Plan, many families are faced with making a choice of paying rent, buying food or paying a heating bill. Consequently, the impact of these benefit reductions is not always reflected in the nutrition level of the low income families. However, it may be reflected in the rising number of homeless or in the increasing number who are unable to adequately heat their homes in the winter, or the numbers who are forced to go without needed medical or dental care.

Question 3. What methods for verification can you implement to ensure that homeless recipients who apply are, in fact, homeless, and that they are not participating in more than one area?

Answer 3. The utilization of Statewide automated client indexes containing recipient's verified Social Security number is undoubtedly the most foolproof method of preventing participation in more than one project area. In addition, States between which there is considerable movement should be required to match recipient files periodically. Utilization of indexes by Social Security number not only prohibits participation in more than one jurisdiction by the homeless, but also addresses the probably more frequent instances of dual participation by recipients who report actually having a fixed place of residence within more than one area. Since rent receipts and landlord statements are easily falsified, they serve little purpose other than to fill up case records with meaningless scraps of paper.

Question 4. You indicated your opposition to legislation I have introduced, S. 1279, to permit States to establish an optional block grant in lieu of the food stamp program. I can understand if you decided in *your* State that the block grant concept was not appropriate—although I might add that California state officials have endorsed the legislation. What I don't comprehend is how you would want to prevent some other States—that may be interested in the optional block grant—from considering that approach, especially if State officals feel it is best for their citizens. Several States, in addition to California, have already indicated such an interest. Why do you oppose even the *optional* nature of the block grant?

Answer 4. Our opposition to the block grant option stems from our previously stated fear that nutrition programs would be vulnerable to the sometimes arbitrary whims of local jurisdictions. Local political jurisdictions are subject to intense pressure from special interest groups, be they liberal or conservative. Because of the potential for this kind of political pressure, local jurisdictions might be driven into implementing programs that are not the most cost effective, functional, or fair. Even though the block grants' concept is optional, it is those same special interest groups that could force the choice of the option in any State. However, with a National nutrition program, local jurisdictions are assured greater protection from small special interest groups altering what the majority of an area's citizens might want for the needy. As an aside, the fact that California State officials support the optional approach, does not alter our opposition. Those of us in the field have seen and experienced "optional" approaches to caring for the Nation's needy over the past 25 years. "Optional" has shown itself to mean . . . don't do anything to help. That is precisely why Congress, in its wisdom, has required Nationwide floors in many of the programs.

Question 5. What is it about the present quality control system that makes it "unfair and unreliable", as you stated?

Answer 5. The quality control system has several major flaws:

a. The present system cites client-caused errors as sanctionable errors, yet does not take into account the demographic differences that make fraud more or less likely. A jurisdiction with high living costs faces a greater risk of client fraud because more income is needed to simply survive in that area than in one where living costs are low. For example, if housing costs are high, recipients are more likely to share housing and neglect to report it than where rent is manageable without sharing.

b. Sample sizes, although they may be adequate to establish a statistically valid National error rate, are not necessarily statistically valid to establish an individual State's error rate.

c. Since one contributing factor to higher error rates may be inadequate staff in numbers or ability, it does not make much sense to fiscally punish the offending State. By decreasing the Federal funds available, States probably become less able to attract qualified staff in adequate numbers, thus the cycle continues and errors are compounded.

d. Lastly, the concept of lowering a tolerance level while constantly changing an already complex program seems illogical and counterproductive. The program has grown tremendously in complexity over the last ten years making errors more likely, yet error tolerance has gone the opposite direction. Workers never become fully knowledgeable about regulations because they change so often! Good procedures are often not developed or in place because before they can be adequately implemented the whole picture is changed and local administrators have to go back to the drawing board once again.

Senator DOLE. Our next witness is Bob Greenstein, a familiar face before he had the beard. Mr. Greenstein is director of the Center on Budget and Policy Priorities in Washington, DC. Bob, good to have you before this committee again. If you can give us the highlights of your statement, your entire statement will be made part of the record.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. All right, sir.

Mr. Chairman, I would like to talk today a little bit more broadly than just about food stamps. I would like to look at a few broader aspects of it.

Several months ago there was a lot of debate about this issue. You made a statement that was quoted in the press that the real underlying problem was not hunger; it was poverty. I think that is very correct. I would like to talk about a few things that have been happening in that area and then draw some inferences from those regarding what the Federal Government might do with this problem.

When we looked at food stamps, the Department studies found that only about 10 percent of the households whose food expenditures were equal to the cost of the thrifty food plan were actually getting the recommended daily allowances—RDA's. That does not mean that 90 percent of the recipients were not getting the RDA's. About half of them were getting the recommended daily allowances. It means that they were digging into their limited incomes to supplement that food stamp allowance in order to get a more adequate diet. What this suggests is that because of the loss of income in other areas from rising energy prices, declining AFDC programs, and unemployment, whenever they are going to have less to spend on food, there is a hunger problem, apart from whatever is done in the Food Stamp Program.

We have major holes in the safety net that have nothing to do with the Reagan administration. In over half of the States, male-headed families do not get AFDC. They do not get medicaid. I think that while we have done better by the elderly due to Social Security and SSI changes in the 1970's, the group that has really been hurt is the families with children. The HHS data show that AFDC benefits in real terms fell 33 percent from 1970 to 1983.

When we look further at a GAO study that just came out a week ago on the AFDC changes in 1981, the report found was that 30 to 60 percent of those terminated from AFDC had no coverage for themselves and their children after being terminated. In the southern cities, over three-quarters of those terminated were below poverty level. And for four of the five States it studied, 50 to 60 percent of those terminated ran out of food.

Finally, in discussing areas other than the food programs, the situation is such that, due to the impact of inflation on tax brackets, taxes of people below the poverty line have risen substantially over the past 5 or 6 years. We have had changes in food stamps as well, some of which did not exacerbate the problem, but some of which including a few in which I worked with members of the committee myself, probably did have more damage than we intended.

Given that situation and the evidence, I think we all agree it is rather fruitless to argue exactly how many hungry people there are. No one really knows. We all agree there is a problem. The question is: what do we do about it?

While this may be somewhat different than the rest of what has been said in the hearing, it seems to me that what may be one of the most significant hunger bills, of this year is the reconciliation bill, which will soon be in conference.

I would mention a couple of specific areas. One is the working poor. Not only were the working poor hard hit by the budget cuts, as the recent GAO report shows, but these families were also hard hit by increases in real tax burdens.

As you know, the Joint Tax Committee has found that the taxes of a family at the poverty line, their income tax plus Social Security payments, went from $269 in 1978 to $1,100 in 1984, that the tax entry point is now $1,800 below the poverty line for a family of four and $4,000 for a family of six, and that even with indexing, this situation will continue to get worse because the EITC will not be indexed.

Your committee does have a provision that makes an awfully modest $25 increase in EITC, which is really very minor compared to the increase in inflation on those standard deductions, personal exemptions, EITC, since 1978, when they were last adjusted. Between your bill and the Ways and Means bill, you have a lot of excellent tax reform provisions. I think we all continue to admire your leadership on this. If many of these provisions were taken, and perhaps some of the Ways and Means provisions were accepted in addition, they might produce room for somewhat larger adjustments in EITC.

Senator **Dole**. What do they have in the Ways and Means bill?

Mr. **Greenstein**. They do not have any.

Senator **Dole**. We have a scope problem.

Mr. **Greenstein**. I do not know what the problems would be. But if it were possible, I would hope you would consider that. I would think that if you look at it properly, such an approach really is something with which you can address hunger among the working poor as well as taxes, and so forth.

Similarly, I would like to mention that there are a couple of provisions Ways and Means has that Finance does not. With regard to AFDC, they have a provision that retains the earnings disregard of the first $30, but would not disregard a third of earnings after the fourth month for the working poor. Ways and Means also has some provisions that would allow the women and children who would otherwise be terminated to remain in medicaid a longer period of time.

Senator **Dole**. Four years?

Mr. **Greenstein**. I think in some parts they are up to 9 months. But I am not sure.

We looked at some of the CRS, Congressional Research Service, data and found that in 40 States now a mother and three children who earn $5,800 a year, 60 percent of the poverty line, are terminated from AFDC after the fourth month. $30 could help quite a bit. And for others, there is a provision that provides a State option for monthly reporting as opposed to being mandated.

Now, this is not an issue in which any problems are simply attributable to Ronald Reagan. After all, the Ford and Carter administrations both were interested in monthly reporting as well. What has happened is that the outcome has not really been what anybody anticipated. Now that the studies are coming in, the most recent studies from Illinois, the one monthly reporting pilot covering food stamps as well as AFDC, found that 90 percent of those terminated for not getting reports in were otherwise eligible.

In Michigan, 92 percent of those terminated were otherwise eligible. At the same time, the Illinois study found that payments to ineligibles were significantly more frequent in the monthly reported group than in the control group.

In fact, the Illinois pilot project found that agency-caused errors and some other kinds of errors were higher in the monthly reporting group than nonmonthly reporting group. You know, in the past several years, it has often been said that some of the well-intentioned social programs of the 1960's or early 1970's, did not work the way they were intended to work. That is probably true.

By the same token, I think we need to recognize that it is possible that a program that may be designed to reduce cost and reduce errors may also not work the way it is intended. We have to have a review of everything. Evidence is increasingly coming in that monthly reporting, although well-intentioned, does not seem to be working. It would seem to make sense that if 90 percent of those terminated are eligible, and if monthly reporting does not really reduce errors, then maybe we ought to provide States with more flexibility as to whether to use monthly reporting.

The last thing I would like to mention in that area before the food stamp comments is, of course, the area of the whole safety net in medicaid. As you know, in a number of States pregnant women and infants are not covered. I think your bill deals a little with that; the Ways and Means, a little bit further. I hope you will look at the Ways and Means provisions.

Frankly, some of those things that I have mentioned could be done and covered by tax provisions. By mixing and matching tax provisions with both bills, I think you could probably come up with the room to do more to deal with poverty and hunger than any other bill before the Congress this year.

Regarding food stamps, I do think there are some important things—if we can avoid opening everything up—that it would be useful to do now. The thrifty food plan is, of course, one of them. And because of food price inflation in recent months, benefits have now fallen to about 95 percent of the current cost of the thrifty food plan. In addition, the assets provision, the sales tax issue, and of course, the adjustment in the earned income deductions back to 20 percent would all be useful to address now. As you will recall, in 1981 we dropped the earned income deduction from 20 percent to 18 percent. That was not in the original administration proposal.

Senator DOLE. I think we were trying to pick up $300 million.

Mr. GREENSTEIN. We were trying to pick up $500 million over 4 years for a supplemental which turned out to be about $200 million when all was said and done because unemployment ended up lower than the administration had predicted. Consequently, we reduced the deduction from 20 percent to 18 percent. And now, we find that indeed the tax burdens on people at the poverty line are significantly higher proportionately than they were back in 1977 when we originally put in the 20 percent.

So there really is not a basis for going below that. Regarding other pieces of proposed food stamp legislation, would hope that the committee would not agree to some of the other severe proposals floating around, such as S. 1727.

CBO estimates that S. 1727 would cut benefits by more than $20 billion over the next 5 years. One of the things S. 1727 does is to end adjustments of the thrifty food plan for inflation. As a result 5 years down the road benefits would only be about 75 percent of the thrifty food plan. In addition, a combination of provisions from that bill would result in some elderly who live alone at incomes as low as 76 percent of the poverty line being terminated.

Similarly, I think the Grace Commission recommendations are quite uneven. Your Finance Committee did an excellent job of picking up the solid stuff. I am not sure there is much more solid stuff to pick up legislatively.

In the food stamp area, if you take the recommendations of the Grace Commission agriculture panel, as opposed to the recommendations of the low-income standards panel, which you did pick up in the Finance Committee, the agriculture panel called for about $7 billion over 3 years in food stamp cuts; 99.6 percent of these savings would come from benefit cuts, as opposed to management or administrative savings.

By the panel's own figures, 96 percent of all food stamp households would have their benefits cut; women living alone—some of them elderly women at 67 percent of poverty line—would be terminated, all two-parent families with two children would lose $375 a year on food stamps, and so on.

The two final comments I would like to make concern error rates and block grants.

In the area of error rates, I sense the situation may be somewhat better than you think. Perhaps you have not seen the latest data, which came out just last week. What the data show is that the Dole error rate provision enacted in 1982 is really working quite well. When that was passed, the error rate was up around 10 percent, if I remember correctly.

The Department provided data to the House Agriculture Committee last week, showing that in the latter part of fiscal 1982 when the Dole provision was passed, the error rate dropped down to about 9.23 percent. The preliminary data for fiscal 1983 show that the error rate dropped further, down to 8.05 percent that year. Basically, all the evidence is that the system is working. There really is not any evidence suggesting that a more punitive system is either necessary or desirable.

Last year when the administration submitted its 3-percent proposal, CBO analyzed the proposal and concluded it would not result in lower error rates. It seems to me that the adverse publicity to a State government is just as embarrassing whether the penalty is $3 million or $5 million or $6 million. Politically it is pretty devastating, and States will do a lot to try to prevent this from occurring.

I know that it is often said, that States do not have enough of a stake in food stamps, and the error rates are lower than those in medicaid. It seems to me there are problems in making that comparison, and it is not really meaningful or accurate. In medicaid, as you probably know, the only errors counted are eligibility errors. All the overpayments are not counted.

In addition, if you are $10 over the resource limit and you get $2,000 in medicaid benefits, this is counted as a $10 error in medicaid. If you are $10 over the resource limit in food stamps, and you get $250 a month in food stamps, the error rate is $250.

If the error rate were computed the same way in food stamps as is done in medicaid, the food stamp error rate would probably be in the 3- to 4-percent range.

Similarly in AFDC, the latest error rate is 7.3 percent from the data I have, versus 8.5 percent for food stamps. But look at the difference in the caseload. For households without earnings in AFDC, the error rate was about 6 percent just a couple of years ago. For households with earnings, it was 18 percent, or three times as high. Six percent of the AFDC caseloads are earners; 20 percent of food stamp caseloads are earners.

Similarly in AFDC households in which the father is present, the error rate is nearly twice as high as in households that are female-headed. In AFDC, only about one-tenth of the households are male-headed; but in food stamps, a far higher percentage of the households do include the father. The point I am trying to make is that if you take just the AFDC portion of the food stamps caseload I do not think you will find any higher error rate in food stamps than in AFDC. If you take just the SSI portion of the food stamp caseload, I do not think you will find any higher error rate than you have in SSI.

The current sanction system is working. I guess the reason I am really concerned about the proposals to alter the system is the fear a lot of us have that if we make the sanctions much more severe, the easiest way for a State welfare department to live within its budget and come up with the money is to take the money out of AFDC and have AFDC benefit levels fall even farther behind in inflation.

I would continue to give the system that you authored in 1982 a further chance to work. So far it seems to be succeeding quite well. And if the error rates do not come down further, then the penalties imposed on States next year would be in excess of $200 million, not small potatoes.

Senator DOLE. Then we could impose the same kind of error rate sanctions on defense contractors.

Mr. GREENSTEIN. A number of us would be in favor of that. Also, one of the things that has cheered a number of people who have worked in this area in recent years is to see Congress under your leadership, trying to put some of the same kind of controls in the revenue area for people in other parts of the income spectrum. I hope you can continue to make progress on that. From my standpoint, it is probably the most important work being done anywhere in the Congress.

Let me just say a final note on the block grants. I remember an exchange between yourself and Governor King at the end of January at the hearing on block grants. He had mentioned that they had tried to take care of some of the problems in that area. I think they did try, but I think a close analysis shows that they did not succeed—not for want of effort or sincerity but because I really do not think it can be done.

Food stamps respond to unemployment. If unemployment goes up, food stamps go up. Block grants cannot deal with that. They put some wording into their report saying block grants should be responsive to unemployment, but there is really no mechanism by which that can be accomplished. You do not know the unemployment rate for States for a given month—as opposed to the national rate—until 2 months after that month has passed.

In other words, we are just now going to start getting unemployment rates for States for March. I think the latest we have now is probably February. So there really is not any mechanism to do that adjustment to respond to the economy.

The other big concern I have is one of the areas about which you have been concerned—more so than any other Members; that is, to keep some equity in the Food Stamp Program and not keep providing lower benefits for women and children than for the elderly. As you know, at the State level the AFDC benefits are far below SSI or SSI supplements. The women and children do not have the political clout of the elderly. It is my fear that the minute we authorize block grants in the Food Stamp Program, what we are going to see in a lot of States is even lower benefit levels for women and children, the single group that has been hit the hardest in the last 15 years, as well as more disparity between this group and the elderly.

When we look at the fact that the new census data show that poverty for children under 6 has grown 40 percent just between 1979 and 1982, anything that moves us further in that direction, I think, would be a mistake.

I see every reason to believe based on past history in welfare programs that that is exactly what would happen under a block grant. So I would hope we would not do that, that we would adopt the positive recommendations of the task forces but not the block grant or error rate recommendations. And in particular, I hope that you all would look as hard as you can at securing some measures in conference between the House and the Senate in the areas of AFDC, medicaid, and the earned income tax credit that would provide enough resources so that low income families would have a better chance to get enough to eat without running out of food before the end of the month.

Thank you.

Senator Dole. Thank you.

I have commented from time to time, that being chairman of this subcommittee and also chairman of the Finance Committee, the contrast is significant. You come to food stamp hearings where you deal with issues affecting the powerless as opposed to the powerful. I think there ought to be the same rules applying to the people at the upper end of the income scale as apply to the lower end of the scale. I do not think that anybody would object to that standard of fairness, but it is difficult to achieve sometimes. Still some progress is being made. They provide a lot of jobs on that committee for the jobless.

The administration contends that when properly targeted, MRRB saves money. I am not certain whether mandatory monthly reporting is cost effective. The administration indicated that most of the previous studies have included universal coverage of monthly reporting which was not cost effective.

Is there a difference between the present targeted system and the previous?

Mr. Greenstein. There is. I am not sure whether all the returns are in on that. We know that when monthly reporting is done on any kind of scale, it is clearly cost ineffective. Some of the studies did find that when it is targeted on certain kinds of groups, it may be more cost effective than the old system, but other studies did not find that it was cost effective for those same groups.

The real question, according to many States, is not whether monthly reporting can be effective, in the absence of any alternative administrative practices, but that monthly reporting diverts resources from other management approaches that can be more effective. While comparing monthly reporting to nothing for a certain group of households may yield some results in certain circumstances, there may be other management strategies for those same households that are more cost effective.

Some of the States feel that they have designed waiver requests that would be more cost effective than monthly reporting, but that the Department has rejected these waiver requests because of a belief that you have got to have certain numbers of people in monthly reporting. My sense is if States had the option, I think that more that half would still do monthly reporting for some categories of households. But I think we ought to allow other States, if they could show that they have innovative techniques that might be even more effective, to try the techniques and see if it might not work better.

Senator Dole. Have any studies been done on the impact of lower inflation that we have had in the past few years? In fairness to the administration, I think the other study you made reference to goes back to 1978, which was pre-Reagan.

Mr. Greenstein. You mean the taxes?

Senator Dole. Yes. Certainly lowering inflation has a positive impact on nearly everyone, particularly those in the low-income States.

Mr. Greenstein. Well, this area is somewhat complex. One of the reasons that prices are down, of course, is that wages are down. Wages are an important part of prices. When you look at the current index of purchasing power, real personal disposable per capita income has grown at a very, very slow rate for the population as a whole. The Urban Institute has done a study in which they have looked at 1984 purchasing power among different groups. What they find is that net purchasing power is actually down for households under $20,000 and up for households over $20,000.

In the AFDC area I think Bob Rubin, Assistant Secretary at HHS, has testified that the AFDC benefits fell another 6 percent in real terms during the first few years in the Reagan administration. Now, that is probably a slightly lower decline in real terms than they felt in the last couple of years of the Carter administration when inflation was even higher. But the bottom line is that most of these households do seem to be somewhat worse off.

You can argue whether—when you had inflation at the old rate and no budget cuts—those households might have been in either worse shape than they are today. For some nonworking households, that may be true, although it clearly is not here for working poor households and for those nonworking households hit by specific budget cuts, but, in any event, these are clearly households, are clearly in worse shape than they were a couple of years ago. We can argue how much of this is due to inflation, how much to unemployment and how much to budget cuts. I am not sure the person who is suffering cares when we argue over the causes. They are left with their condition, and hopefully we can remedy it somewhat.

Senator **Dole**. As I understand, we have not collected any money yet in AFDC or food stamps as error rate sanctions, is that correct? Have we collected any?

Mr. **Greenstein**. You mean in terms of error rate sanctions?

Senator **Dole**. Yes.

Mr. **Greenstein**. Not much.

Senator **Dole**. I think we have paid out about $116 million in SSI.

Mr. **Greenstein**. I think this is one of the key points I would make. In food stamps, for example, we enacted an error sanction system in 1980. I believe that some of the funds for that have been collected, I could be wrong. Those sanctions were smaller than those under the 1982 amendment that you authored.

It seems to me that this is even more reason for not changing the system. Under the amendment that Congress enacted and you authored in 1982, the first error rate sanctions—that are much bigger than in the past—are based on errors committed during fiscal year 1983. The Agriculture Department has not yet finished its work on what the error rates were during 1983 and has not levied those sanctions.

So the point is that the error rate has already fallen from about 10½ to 8½ percent just on the threat that these sanctions were coming. When those sanctions begin to be levied, which is now starting to happen—the whole reason they have not been levied is because there is a year or two lag, I think you will see the error rates come down even more sharply.

The point is that if the error rates have come down as much as they have even before the first sanctions are in, then there is every reason to hope that the system put through in 1982 is turning out to be quite successful. The fact that some thought that it was not tough enough and that it would not do anything, is really turning out not to be the case.

Senator **Dole**. I have not had a chance to review this April 25 GAO report. Have you seen that? It indicates that, as of early April, States have not paid the Federal Government anything in food stamp or AFDC sanctions.

Mr. **Greenstein**. It is of interest that about a year into the Reagan administration, when the first food stamp sanctions became due, the States were all forgiven. But at this point in time it is my understanding that a lot of sanctions have now been levied by Agriculture. There is a procedure whereby States can appeal them and thus appeal process is now being used.

The Departmemt in the last 3 or 4 months has started these appeal hearings. I believe—I am not positive about this—that most of the States that have had hearings so far and have had a decision have lost the hearings. So the sanctions will now be collected.

Regarding the sanctions under your system, the first of those will be levied about 6 or 8 months from now. For the fiscal 1983 errors, it will take until September or October to certify the State-by-State error rates and levy the sanctions.

As you know, the sanctions get bigger each year. And all of the estimates now show that the sanctions under the current system for errors committed in 1985 will total about $200 million a year. So they are quite substantial.

Senator DOLE. You mentioned the difference between medicaid and food stamps and why they are not analogous. We would appreciate it if you would make that information available.

Mr. GREENSTEIN. Sure, I would be happy to. I think there is a good reason for that. In medicaid, the State is responsible for determining who is eligible and who is not eligible. If someone is eligible, overpayments are then the result not of anything the State does, but of things the providers do. So you cannot properly count the overpayments as State errors in medicaid.

But the problem arises, I think, when people simply compare the error rates in food stamps to those in medicaid. This is comparing apples and oranges.

I am not suggesting that overpayments not be counted in food stamp error rates. They should be. But in medicaid, you can only count what the State is responsible for. And that is basically the ineligibility rate.

What I am saying is that we need to be very careful in making these comparisons—they make good political argument to justify the massive increases in food stamp sanctions. But when you actually look at what is involved, you are really comparing apples and oranges. Food stamp error rates are coming down and probably are comparable to those in other programs if you apply the same caseload and the same definitions of what is an error.

Senator DOLE. I appreciate your testimony. In fact, we have already started preliminary staff level consultations in the House Ways and Means Committee. Probably there will be some information leaked on what we are doing; there always is.

Mr. GREENSTEIN. I will give you a couple of charts. That is just in constant dollars.

Senator DOLE. We did not do much——

Mr. GREENSTEIN. This is the Finance Committee provision what happens in constant dollars. You can see that even under your provision it would still decline in constant dollars, very small.

Senator DOLE. Thank you very much.

The final witnesses are Earline Miller and Sister Mary Drey, a member of the Mayor's Task Force on Food Assistance, Kansas City, MO.

If you can summarize your statements, that will be helpful. I need to leave here at 4 o'clock.

STATEMENT OF EARLINE MILLER, KANSAS CITY, MO, ACCOMPANIED BY SISTER MARY DREY, MEMBER, MAYOR'S TASK FORCE ON FOOD ASSISTANCE, KANSAS CITY, MO

Ms. **Miller**. All right, I am not going to take much of your time. This is based on five different categories.

First of all, you have got many of us on crutches. The crutch is we are not living, we are existing. The existence comes from what you give is not enough.

Do you understand where I am coming from? There are different States and different counties where they may be getting a little more than others. I am only speaking for Jackson County and that which I know about.

I get $129 a month for my family. That is not enough. If I take my $129 and try to stretch it, it is not going to go very far. By the 15th, maybe 16th or 18th of every month, I am trying to figure out a way, to where what organization or what food pantry would help me make my ends meet until the end of the month or the first of next month.

If I did not have that to worry about, the time that I am taking out to do this, I could possibly maybe be looking for a job, you know, or if a job opportunity came to me, I would know how to go about it.

Because I have no income. I have no income whatsoever. I exist, I live on this little funny $129 that is given to me. I do not want it. I would prefer working if I was given the opportunity. But the opportunity is not there for me.

I worked as a volunteer in a food pantry free, all right, in hopes that maybe I would be able to maybe work my way in maybe a small salary. I did not get that. Another lady got cut, so that put me back looking for another job, you see.

I am just speaking for the majority, not the minority. Because I know quite a few who would rather work to help themselves rather than to have a crutch they have to keep on leaning on. As long as you make them exist or live on just a very small amount, there is no way, you see. And to use them, there is so much you cannot do with food stamps.

You see where I am coming from? There is so much, we cannot get toiletries, household articles that you have to take from what little income that you do get, whereas you could use that for something else, you have to use it to buy those small little items which are not small when you come down to it, you see.

But like $129, by the time I go to the meat store, I just knocked the heck out of that, that went right on out the window.

There is no doubt in my mind, and I would not tell you anything different, you are doing the very best you can. To me a dollar is a dollar, and I am going to try to stretch it to hell and back if I can.

Senator **Dole**. What are you recommending?

Ms. **Miller**. I am asking if you would try and take into consideration that either you have to come up a little or make arrangements to whereas you can buy the articles that you do not—where they are going to have to go into their finances. Especially as far as your ADC recipients, your Social Security. When you take from there—say we got a family of four, and she receives $305, she gives

$199 maybe for food stamps for the children. By the time she pays light, rent, possibly a phone bill if she has got it, or insurance, try to buy a little clothing, buy the necessities, toothpaste, tooth brushes, whatever has to be, toilet paper, soap powder, bleach, you have just knocked the heck out of that——

Senator DOLE. What is your total? Do you get AFDC?

Ms. MILLER. I get nothing, I do not get anything other than food stamps. They say that I am not eligible for any type because, you know, my daughter is grown and my baby boy has been staying at another firm because I cannot even afford to keep my own son.

Senator DOLE. You live by yourself?

Ms. MILLER. I have my daughter and I, you know. And I am in the process of trying to get my baby back. But see, until I can provide—and I have skill to work. I do not mind my hands getting dirty. I stacked bricks in the stockyard for 2½ years. So it does not bother me to get my hands dirty.

I want to say thank you for the invitation for Congress, although Sister Mary did have to struggle hard to get us here through organizations. I am really thankful for our mayor and the Catholic charities and all them for sending us out here. And my friend, he bought me a suit, he wanted me to look pretty. So if it was not for him, I do not know how I would have got looking up here.

Senator DOLE. You look very nice.

Ms. MILLER. Thank you. But I wish you would think about that seriously, give us a chance to help ourselves.

I ran into a little sign into the store once that said God helps those who help themselves and the Government helps those who cannot or will not. I am one of those who are willing to help myself, just give me a chance.

Senator DOLE. Would you be willing to participate in a community work program in exchange for your food stamp benefits?

Ms. MILLER. Sure. I would be willing for work for anything for any reason, you know, a job to me is a job.

Senator DOLE. Sister Mary, do you have anything you would like to tell us?

Sister DREY. She is a real hard act to follow in my eyes. I had a prepared statement, but I do not—that will go the committee, right? [1]

Senator DOLE. Right.

Sister DREY. I think my main point is I hear people like Earline every day in that same situation where their food stamps just do not stretch far enough. And I work at Wayne Manor Public Housing in inner-city Kansas City, and the story is just the same. Their food stamps take them a couple of weeks into the month. And they hit the pantries, they hit the emergency assistance, and it just does not carry them far enough.

And so my strongest reply is that any considerations for any cuts in the food stamps would just not even be considered. And if there is any way—you know, I am listening to the people today who are really in touch with all the bills being passed. Anything that could at least be the same or raise them for the benefit of the elderly and for the people who really need it. That is why Earline is here today, and we thank you.

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[1] See p. 287 for the prepared statement of Sister Drey.

Senator **Dole**. What is the last job you had?

Ms. **Miller**. I worked for an electronic research for a year, and then I worked at the nursing home was my last job, as a nurses aide.

Senator **Dole**. That has been a year?

Ms. **Miller**. It has been over a year. I worked as a cutter, I worked in a fish market. I have been a hotel maid, hotel clerk. I——

Senator **Dole**. You are willing to work, that is the point?

Ms. **Miller**. Just give me a job. That is all I want. If you give me a chance.

Senator **Dole**. Is there an effort, Sister Mary, to help some of these people find jobs? Is that part of your program?

Sister **Drey**. That is part of my job. Specifically in Wayne Manor we are getting a job training program and on-site college right in the project. And we have contacted businesses around the town. The women there have an average of a 9th grade education, 4 to 10 children, some of them And to provide day care and the kind of things that need to come through this program. The businesses have said that they will give preferential job screening, good opportunities to those people that go through. There is an effort.

Ms. **Miller**. That is the thing. We got the programs working. In the meantime, see, there are so many things that still are going on, bills are still going on. You know, I still have to live while the programs are being made up. My bills are still running. And I cannot live on a promise. I need a man to open up the door for me, let me get part of the way in. I will make my own way.

Senator **Dole**. We appreciate your coming all the way. You did not arrive on a very good day, weatherwise though.

Ms. Miller. I enjoyed it. Believe it or not you have gave me a very good experience. I got to ride on one of the most beautiful airplanes I have ever been on as far as that is to St. Louis. And after I got to St. Louis, they gave me something else, I do not know what that was. It wasn't like that first one. The first one I might as well have been in first-class.

Senator **Dole**. That must have been Air Force One.

Ms. **Miller**. I do not know what that was. It was beautiful, with a TV and all this. And I said, my goodness, I am in coach? But my first time—I have been here before, but not under these circumstances. I was once—I drove an old 1949 Plymouth here for one of the fellows who worked for the Capitol. And he did not have a way to get it here, and I was—he had a summary to write up, so I drove, he wrote up his summary. And I think I did that so I could get paid.

So I will tell you, I will do anything for a job, drive cross country.

Senator **Dole**. Well, we will include your statement in the record. We thank you very much. We will review the recommendations you make in your statements.

I am not certain what is going to happen. We wanted to have the hearing and make a record.

Ms. **Miller**. What is the date of the hearing?

Senator **Dole**. We have a markup on child nutrition. I do not know what will be happening on food stamps—whether we are going to do anything this year.

Ms. **Miller**. I hope you do something. We have a lot of people that won't do any better as long as they feel like they are on crutches.

Senator **Dole**. We need to keep the recovery going so more people can get jobs.

Ms. **Miller**. That is what I am talking about, jobs is the main thing. To only exist is not it, you want to live. And the only way to live is to take out the crutches to people. And I want to walk on my own two feet.

Senator **Dole**. That is a good statement to end the hearing on.

If anyone else has a statement to put in the record, we will keep it open for awhile. Now, we will adjourn.

[Whereupon, at 4:03 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

NORTH CAROLINA HEARING

STATEMENT OF HON. JESSE HELMS
A U.S. SENATOR FROM NORTH CAROLINA

The purpose of this hearing is to gather factual information from those who work firsthand with the food stamp program on how well the existing program is working, and how we can make it work better with less cost to the taxpayers.

- The Committee wants to know how well legislative reforms it has already adopted--intended to prevent fraud and abuse and to target benefits to the poor--are working in practice.

- We need to identify remaining areas of the program which are susceptible to fraud and abuse, or too cumbersome administratively so that we may pursue legislative remedy for such problems.

- We need to know what "new tools" will be needed to effectively combat fraudulent misuse and abuse in the program.

The food stamp program is the second largest Federal welfare program. Over $12 billion of the taxpayers' money is spent each year with the intended purpose of providing nutrition assistance to low-income families. No Senator begrudges federally sponsored assistance, through reasonable needs-based programs, to a poor widow, or widower, a disabled person who is unable to work, or other deserving needy people who cannot provide for themselves. Unfortunately, this objective is not reached when ineligible recipients defraud the taxpayers and abuse the compassion of the American people by obtaining food stamp benefits under false pretenses.

The tragedy of the food stamp program is that the truly needy are the ones being harmed the most because of wide public disfavor for programs perceived as wasteful and extravagant. Hardworking and overburdened taxpayers are justified in resenting such waste and abuse of their tax dollars.

During the past 3 years, the President and Congress have attempted to bring about reforms in the program that would provide better targeting of the program to the poor, while reducing the chances for fraudulent participation. Over 30 provisions, specifically designed to reduce fraud and abuse, have been adopted, many of them at my insistence. Even with these significant changes, however, I continue to receive reports of substantial fraud and abuse in this and other welfare programs. These reports come not only from working citizens, but also from many caseworkers, from honest recipients who resent cheating, and from fraud investigators who work with the program on a daily basis.

One investigator recently told me, "Senator, there's no way to overstate the corruption in the food stamp program. Everwhere we turn, we find people who are making a big business of stealing from the taxpayers through the food stamp program." Law enforcement officials in North Carolina have told me that the problem of the greatest magnitude--in terms of numbers--is the incredible amount of fraud in the food stamp program.

Many of the reforms of recent years have been enacted based on recommendations from conscientious social service workers and fraud invesigators, prosecutors, and others who have provided suggestions for improvement in the program to make it less susceptible to fraud and abuse.

Once again we want to hear from those on the "front line" to determine what additional measures may be needed to continue this fight against fraud, waste, and abuse. We will have an additional hearing on this subject later this week in Washington.

I introduced legislation last fall to address some of the remaining problems that were brought to my attention. The Food Stamp Integrity and Accountability Act, S. 1993, was drafted carefully in such a way that the provisions should have no impact on those in genuine need of food assistance and made eligible by Congress.

However, the bill does attempt to address abuses--great and small--which have been cited by those who are familiar with the existing food stamp program. Recipients who have abused the program, or benefited from its existing loopholes, will indeed, be affected by having their benefits reduced or, in some cases, eliminated.

The reform proposal with the largest savings impact addresses State overissuance error rates. I should emphasize that it does not reduce monthly benefits to legitimate or even ineligible recipients. Rather, the thrust of the provision is to require States to improve their outrageous and dismal overissuance rates.

Also, I have suggested that a State could opt to operate a low-income nutrition assistance block grant--designed by the State--in lieu of the present Federal food stamp program. Under this system, States with innovative ideas could run their programs without direction from Washington. As such, it would enable those States, that wish to attempt it, the ability to strike out in new and possibly more innovative and effective directions. States will be able to tailor nutrition assistance to fit the individual needs and desires of their citizens. This proposal was passed by the Senate once, and I am optimistic that we will again win approval, and ultimately its adoption into law.

I became Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry in January 1981. The Committee has the responsibility of monitoring all aspects of agriculture, feeding programs (such as food stamps, school lunches, et cetera), plus the Nation's forests. It is my duty to insist that all programs under the Committee's jurisidiction be operated efficiently, and in a manner fair to the taxpayers. It is because of this responsibility, as Chairman of the Committee, that I take such an interest in the proper oversight of the food stamp program.

Most citizens are surprised to learn that the food stamp program is actually the largest program within the Department of Agriculture--comprising, with other food assistance programs, almost half of the Department's entire budget.

We will hear from witnesses today representing every level of responsibility, from the eligibility worker who interviews food stamp recipients, to those whom we hope most food stamp recipients never meet--the fraud investigators and prosecutors.

STATEMENT OF GERALD YORK, FRAUD INVESTIGATOR, BURLINGTON, NORTH CAROLINA, UNITED STATES OF AMERICA

S.1279 which deals with food stamp optional block grants has some positive points which are well documented in S.1279. However, in my opinion, there are some potential problems that merit some thought. Giving States greater flexibility in the administration of the food stamp program would possibly pave the way for more interference from special interest groups. I believe that the federal government is better suited than the States to deal with these groups, as some of them are federally funded. I also fear that allowing fifty states to administer food stamp programs fifty different ways will cause more problems than the present system. If there are not enough courageous people at the federal level to make the food stamp program efficient and respectable, why does anyone think the States will create efficient nutrition programs?

A desire to simplify the food stamp program and to make it more efficient is an objective shared by most of us. How to best accomplish that seemingly impossible mission is a problem that we now encounter. I hope that a large number of people who work with the program on a daily basis will have some input into straightening out the problem.

S.1727 and S.1993 are excellent bills and would be very helpful in eliminating some of the program's weak points. I have received dozens of complaints about recipients using change from food stamp purchases to buy beer, cigarettes, and other non-essential items. Although the elimination of giving cash back following food stamp purchases will not save money, it will certainly improve the image of the program.

Returning the purchase requirement for program participants with the exception of the elderly and disabled would have a very positive impact. In Alamance County, North Carolina, for the six month period preceding elimination of the purchase requirement, the average monthly participation was 1,412 households and $104,199 food stamps issued. The following six month period average was 1,922 households and $153,048 food stamps issued monthly. This meant a 36% increase in household participation and a 47% increase in allotments. Before the demise of the purchase requirement, many applicants found that they would be required to pay sixty cents to ninety cents for each food stamp dollar. Most of these people decided to not participate in the program, however, with the removal of the purchase requirement, this group returned and became recipients. We currently average 2,200 households and $200,000 in allotments.

Intercepting federal and state income tax refunds to repay fraud (IPV) claims would be beneficial, however, I believe that the intercept should be expanded to include household error claims (IHE) as most overissuances fall in this category.

All of the food stamp eligibility workers and fraud investigators that I have discussed the program with believe that the voluntary quit penalty should apply to certified households as well as applicants. This would remove a discriminatory rule and encourage employed recipients to remain employed.

Another practical suggestion is limiting the maximum amount that can be issued to a household regardless of the household size. We currently have a twelve (12) person household receiving $558.00 in food stamps each month. This family has received $22,800 in food stamps in the past four years. The household consists of a man, his wife, and ten (10) children. It is ridiculous that we reward their fertility/virility by increasing their benefits with the birth of each child. The wife recently called her food stamp worker and stated that she was offered a job, but she didn't know if she would accept it because it might "mess up my food stamps."

Limiting the number of months or years a household could participate, just as unemployment benefits are limited, would provide an incentive for some of our physically fit clients to seek employment. This limitation would not apply to the elderly or disabled, and would have no effect on temporarily unemployed recipients. These are the only people who are truly entitled to our assistance.

The original concept of the food stamp program was probably excellent with great intentions. Unfortunately for the taxpayers of this country, the program has escalated into a gigantic mess. The food stamp program is disliked by more taxpayers than any other giveaway program, even though its budget is small compared to some "entitlement" programs.

Most Americans have been exposed to some type of abuse of food stamps. Although fraud is prevalent in the program, it appears that abuse is more visible and most responsible for the poor image of the program. Two common abuses are selling/buying stamps, and purchasing ineligible/non-consumable items with stamps. I have also had contact with two food stamp entrepreneurs. One lady bought forty dollars worth of weiners and buns with stamps and then sold hot dogs at a wrestling match. Another recipient buys snacks and sodas and then resells them for a profit. She lives in a large housing project and has a good business.

Fraud is a common occurrence and we will never eliminate it. The steps in controlling any problem are recognizing the problem, admitting that there is a problem and then starting a corrective action plan. I believe that everyone recognizes that fraud is a problem. The second step, admitting that there is an unacceptable amount of fraud in the program, is the largest roadblock we encounter in solving the problem. As long as administrators and politicians at all levels refuse to admit that fraud is occurring at an intolerable rate, we will not be properly staffed to combat fraud. Legislators and county commissioners are not going to approve hiring fraud workers if administators tell them that there is only an insignificant amount of fraud in the food stamp program. These administrators realize that if they do not employ investigators, very little fraud will be detected, and then they can deny that it exists. Our agency is fortunate to have an administrator who realizes the importance of an active fraud program. The citizens of Alamance County know that we are trying to operate an efficient food stamp program, and consequently, they are more tolerant of the program.

I have talked with fraud workers from many states and we all have at least one thing in common. Apparently, there are not enough investigators in any state to handle the volume of cases. In North Carolina, there are approximately 200,000 food stamp households (550,000 people) and 66,000 AFDC cases. The state employs one (1) full-time fraud coordinator for these two programs. There are approximately 100 county employees working in various fraud positions. About 50% of the state's 100 counties have some type of fraud program. Half of the counties are at least making some effort to operate respectable programs.

Every fraud worker that I know strongly supports some type of food stamp program, but very few are satisfied with the present system. I believe that return of the purchase requirement, continuation of wage matching, stiffer voluntary quit penalties, cutting the maximum benefit for large (6 and more) households, and limiting the amount of time that young able-bodied people can participate in the program would have a great impact and put some respectability in the program. It is tragic that the 30% who abuse and defraud the program place an undeserved stigma on the honest 70%.

If the originators of food stamp regulations do not make some badly needed changes, the program will continue to be disliked by the majority of the taxpayers. Less than 50% of the people receiving food stamps are elderly or disabled.

As a working American, I feel no obligation to support people who are too lazy to work. I am sure that most taxpayers are happy to help the elderly, disabled, and people who are temporarily unemployed. Like many working class Americans, I had to limit my family to one child. Why should I be forced to pay for another person's irresponsibility?

STATEMENT OF DEBORAH RYALS, SUPERVISOR OF INVESTIGATIONS, DEPARTMENT OF SOCIAL SERVICES, DURHAM, N.C., AND BOARD OF DIRECTORS OF THE UNITED COUNCIL ON WELFARE FRAUD AND NORTH CAROLINA CHAPTER OF THE NATIONAL ELIGIBILITY WORKERS ASSOCIATION (NEW) AND FORMER NATIONAL PRESIDENT OF NEW

Many people throughout our nation depend upon the Food Stamp Program to help meet life's most basic need for their family - food. As a student at Appalachian State University in the late 1960's I had an opportunity to meet and work with some of the families living in impoverished mountain areas. Having grown up in an urban area in a middle class family, I was astonished at the lack of basic necessities of the families I met, especially their lack of adequate food. I feel certain that if I were to go back to that area and visit these families today I would see a totally different situation. I feel that I would see that the children in this area now do, for the most part, have adequate food. In my mind this change in available food is not totally due to a change in their economic situation, but rather this change was brought about by the availability of food coupons with which to purchase adequate food supplies. I believe in the Food Stamp Program and strongly support the concept of a Food Assistance Program for needy persons.

I have had the opportunity to see the Food Stamp Program from several angles: 1) As an Eligibility line worker in the applications division; 2) As a Supervisor of redeterminations workers who handled both AFDC and Food Stamp cases; 3) As a volunteer working with persons receiving Meals on Wheels and through my civic club and church work helping people in need; 4) As a friend and relative of persons who have had to turn to Food Stamps for help, and currently 5) As a Supervisor of Welfare Fraud Investigators.

From each of these levels I have seen both the good and the bad. of the Food Stamp Program. The good, when people are able to go from not enough food on the table or not knowing where their next meal will come from, to having enough food and the security that the Food Stamp Program offers. The bad, when people who need more don't have enough, and the bad when errors cause overpayments and people who are not eligible lie or cheat to gain benefits. It is from this last angle that I speak to you today.

The Federal Government has done much in recent years to both strengthen and tighten the Food Stamp Program. The 1983 changes requiring more verification before certifying, and strengthening the recovery of monies lost through overpayments were good and have done much to aid Investigators. The State of N. C. Food Stamp Branch has also taken some steps to help Investigators and the program: Now Investigators are represented on a committee rewriting Eligibility Manuals and on Corrective Action Committees, a Special Investigations Committee has been established, and a Fraud Coordinator has been appointed for the State which gives us at least a beginning for consistency across the State as well as support and guidance. I hope that this staff will be increased in the future and that we will have field advisers for Investigators. The State has also taken the lead in moving Investigations out of the program area by assigning the Fraud Coordinator to the Director's Office rather than a program head. In the 100 counties of North Carolina we have about 54 Investigative Units and each of these units operates differently.

Some of these units answer to the Director, others to a division Director, others to a line Supervisor and still others wear two hats and must carry an eligibility caseload and act as Investigator. In my opinion, it is inappropriate for Investigators to be assigned to Income Maintenance. Most of an Investigator's work is in the Income Maintenance area. Therefore, it is totally inappropriate for them to be supervised by the very people of which they are more or less the watch dog. This leaves an area of question in the whole issue of accountability. Since Investigations of Fraud in Public Assistance Programs is a relatively new area, it appears that management and Directors don't know enough about the Investigative function to really know where these units should be housed. In my opinion, some guidance from this Committee would be most helpful in strengthening the programs of many counties. It would also aid investigations to have recommended or mandated staffing patterns for Investigators. It amazes me that some counties still do not have Investigative Staff, even though the Federal Government is willing to almost pay all the costs. In my county during one quarter last year, we actually had a net gain to the county of $5,511.00 through incentives for collections and the 75% funding for staff.

As an Investigator, it would greatly help my work to have more options for collecting overpayments. The recent changes in allotment reductions have helped a lot, but laws requiring garnishment of wages, tax refund set offs and off sets of unemployment compensations would give us the tools we need to increase monies returned to the Food Stamp Program.

Those of us concerned about reducing federal spending, increasing accountability and reducing fraud, waste and abuse must turn our attention to Prevention. Legislative or Procedural changes are needed, but I think these should be focused on prevention. Investigators have a wealth of information at hand which would greatly enhance the work of Eligibility and Supervisors. This information needs to be regularly transmitted to Eligibility and used by them. Specific recommendations for preventive efforts would include but not be limited to:

1) Increase computer match capability to include Bank matches and tax return matches to identify dividends and interest income.

2) Include specific questions on the application regarding the applicants marital status. There currently is no place in the application process to specifically indicate a person's current marital status nor do the application and change forms indicate that a person must report this type of change.

3) Limit the number of months a person can be certified if their bills exceed their income.

4) Redefine the household concept and allow only one card per household unless there is an elderly or disabled member.

5) Fund picture ID's for all Food Stamp recipients. This could save countless dollars now lost through theft and fraud.

6) Allow for waivers of ten day adverse action notices when the client requests termination or when it is verified that

the client is ineligible and any further benefits received would result in an overissuance.

7) Keep to a minimum the number of changes made to the program. The frequent program changes, especially mass changes, required of Eligibility Staff themselves create stress and force staff to hurry through cases just to get them done as well as confuse line workers who must implement these changes. Placing workers in these situations leaves us more vulnerable to errors and fraud.

8) Implement penalties similar to those in AFDC for persons not reporting changes timely. This would in some instances be an added burden on staff, but it would serve as somewhat a deterrent to people thinking they can wait to inform the Food Stamp Office of changes.

An investigation for suspected fraud or collection actions to recoup overissuances should only be necessary when every possible effort to prevent these abuses has been made yet was not successful. Those persons who are successful in getting past all preventive defenses and therefore commit fraud should be dealt with fairly and consistently using every available option to see that the money is repaid and the crime is punished. A good investigative program would be one in which every possible action is taken, i.e.: Administrative Hearings; Civil Actions; Allotment Reductions and Criminal Prosecution. Persons committing fraud should be made aware that this is unacceptable and will be dealt with accordingly. Fraud is unacceptable. Persons committing fraud in the Food Stamp Program are, in effect, stealing food from persons who have been honest and who really need Food Stamps. Administrators, legislators and program staff have a responsibility to protect our honest clients. I feel that all of us who believe in the program should direct all of our financial resources and energy into a strong preventive program. Enhanced efforts to initiate computer matches like some of the matches N. C. is working on will aide preventive efforts. Rewriting procedural and policy manuals so that they are easily read and understood will help; including in the manuals and new policies not only the content of the new policies but also written instructions for implementing the policy. For instance, instead of just mandating a wage match we should be explaining the purpose of the match and ensuring that every worker realizes that the match is not just busy work, but is being done to help prevent and detect fraud and abuse and only when used properly will it help accomplish this mission.

In my county I initiated "Project Prevent" in which the Investigator, at the close of each investigation completes a separate summary. The purpose is to have the investigator identify what, if anything, could have been done to prevent the overissuance. We're finding that there are some fraudulent acts in which there was no humanly possible way to prevent. But we're also finding that there are overpayments that were not necessary and could have been prevented. This information is presented to management and if it will be used by Eligibility Staff, I feel it will aid in our efforts to reduce errors.

Line workers and supervisors should be given every tool possible to complete the task assigned them. Their caseloads are too high and unmanageable if they are to deliver quality services and ensure that verifications are completed and attempt to prevent fraud and errors.

We need federal leadership in developing standard training courses for new workers. Current training, due to staff shortages and time constraints is, in my opinion, poor. Also current training is normally limited to learning and applying policies. This is not adequate. Workers need to be trained in interviewing skills, learn the art of confrontation and the theory behind what they do and how they do it. Workers need to know without question, that the people they are attempting to help are going to be held financially responsible for any errors that they make. Although I understand the reasoning behind having clients repay agency-caused overissuances, I cannot agree with this practice. At some point, workers and supervisors should be responsible. If this were the case, I strongly believe we would see a decline in the error rate and that eventually costly careless errors by workers would become extinct.

In closing, let me say that I am against continued program changes (outside the ones I've mentioned) aimed at reducing costs. If error rates and fraudulent acts are to be reduced, we must not always look to programmatic changes, but rather look toward enhancing and increasing our current efforts. Every effort should be made to prevent fraud. The key to this is a well trained Eligibility Worker who has the skill and the supervisory support necessary to complete his/her task. This should be backed by a strong Investigative Program whereby fraudulent acts are seriously handled. In the Food Stamp Program, our Eligibility Workers are our greatest resource and they must be supported, applauded and given every possible incentive to ensure that only those in need of Food Coupons actually receive them.

Attached to this statement are current financial and production figures from the Durham County Investigative Unit.

DURHAM COUNTY INVESTIGATIVE UNIT

I. Food Stamp Caseload: 5400 households (approximate)

II. Investigative Unit Staff:
5 Investigators
2 Clerical Support
1 Supervisor

(2 Investigators are dedicated to Food Stamp cases.)

III. Collections/Reimbursements in Food Stamps
FY 80 - $9,691.32 collected $0 reimbursement
FY 81 - $10,513.82 collected $4,389.41 reimbursement
FY 82 - $27,163.68 collected $10,062.68 reimbursement
FY 83 - $45,384.05 collected $21,683.32 reimbursement

IV. Awaiting Investigation
Approximately 1100 cases dating between 1981 and February 1984 are now awaiting action. Included in this 1100 cases are possibly inappropriate referrals, inadvertent household errors and suspected intentional program violations.

STATEMENT OF J. C. COLE, PRINCIPAL, COLE INVESTIGATIVE SERVICES

ELIZABETH CITY, N.C.

FRAUD WITHIN THE FOOD STAMP PROGRAM IN NEW YORK CITY

I would like to take this opportunity to thank Senator Helms, Mr. Tom Boney and the Senate Agriculture Subcommittee for inviting me to speak at this hearing today. I moved back home to North Carolina last year and I am presently licensed as a private investigator and run my own business, COLE Investigative Services in Elizabeth City, North Carolina. I have been asked to speak because of the experience I gained in conducting food stamp investigations in New York City while assigned there as a U.S. Postal Inspector.

You might ask what does a postal inspector have to do with food stamps and what would give postal inspectors investigative responsibility in a program administered and controlled by the United States Department of Agriculture? To answer that, first we have to look at how the program is administered. The funds for the program come from the federal and state governments, and in New York it is administered locally by the City's Human Resources Administration. Food stamps are generated by vouchers called Authorization to Purchase cards (hereinafter referred to as ATPs). These ATP cards are sent to the individual recipient via the U.S. mail. When these same ATP cards are diverted from the mailstream by fraudulent means before receipt by the addressee, this violation falls within the jurisdiction of the U.S. Postal Service. Therefore, these investigations are jointly investigated by both the U.S. Department of Agriculture and the U.S. Postal Service, with the cooperation of the Department of Human Resources Administration investigators. The information that I will present will pertain to examples of diversion of ATP cards from the mailstream.

Let us first examine whether thefts from the mail can have a significant impact on the food stamp program. In Brooklyn, New York during 1980, approximately fourteen letter carriers were arrested for ATP related thefts. One carrier was arrested with approximately 60 ATP cards in his possession. Two more, who were working together were responsible for the theft of approximately 100 ATP cards at one time. Another had twenty-five. These fourteen carriers at the time of their arrest were charged with the theft of approximately three hundred fifty-five ATP cards. If we were to use the sum of fifty dollars as the average amount of a single ATP card, we would have a total of $17,750. Some of these carriers admitted stealing ATP cards several times during the mailing period each month. Some stole to support drug and gambling habits, others stole because the cards were easy to "fence" and it was easy money, with little risk attached.

Some of the methods used to make these arrests included undercover buys; deliberately mixing up the ATP cards for different routes; and marking the ATP cards in some way that would not be noticeable to the postal employee.

As a result of mass-marking in selected postal districts, we were able to allow ATP cards to travel the normal course of business and be returned to the banks.

At this point, let's look at the fraud in the total program as it relates to the above testing and marking procedure, and trace an ATP card fraudulently diverted from its rightful recipient. Take one of those fourteen carriers, for example. He sells a card valued at approximately $100 to a fence, say a meat market for approximately $25. In New York, it is necessary for the fence to operate this fraud in conjunction with a check casher, because check cashing establishments throughout the City are responsible for exchanging ATP cards for food stamp coupons. Therefore, the fence gives the ATP card to the check casher who gives him $100 in food stamp coupons in return. The meat market owner gives the check casher $25 and then he deposits the $100 worth of food stamp coupons in his bank account, as if a customer legitimately used these coupons to purchase meat, and withdraws $100 in cash. He has made a profit of $50. This modus operandi could take place any number of ways: robbery of the postal employee, the recipient selling his/her card and reporting it stolen, internal depredation within administering agencies, and contract employee handling of ATP cards.

The ATP cards stolen by the fourteen carriers represents the value of their thefts on the day they were caught and arrested. From those $17,750 worth of ATP cards stolen, a fence could realize a profit of $8,875.

Our investigations disclosed heavy organized crime involvement. One meat market controlled by the Gambino family, Ranbar Meat Markets diverted approximately one million dollars per year for ~~over a period of~~ three years. The company pleaded guilty in U.S. District Court to food stamp violations. The Gallino Brothers in Brooklyn, N.Y. who owned approximately five meat markets were also convicted in Federal District Court.

Examination of the ATP cards during these investigations disclosed that it was easy to fence ATP cards obtained in any manner: ATP cards stolen during armed robberies of mail carriers, or ATP cards forcibly removed from mail receptacles (mail storage boxes and house letter boxes) are just more examples. There were ATP cards recovered from the banks that had passed through check cashers in Brooklyn, although the cards were addressed to recipients in all five boroughs. The check casher was far away from the neighborhood of the recipient. Many of the ATP cards were forged, others contained no signature, just the stamp of the check casher. I might add that many of the cards were in "mint condition."

In conclusion, the diversion of funds from the food stamp program is significant and organized. It is easy money and the program lacks the controls necessary to discourage abuse by the recipients, postal employees, retail markets, check cashers and organized crime persons.

STATEMENT OF JAMES A. WIGHT, DIRECTOR, WAKE COUNTY DEPARTMENT OF SOCIAL SERVICES AND REPRESENTATIVE OF THE NORTH CAROLINA ASSOCIATION OF COUNTY DIRECTORS OF SOCIAL SERVICES

Senator Helms, members of the Senate Agriculture Committee, and staff of the committee, I wish to thank you for the opportunity of presenting the position of the N.C. Association of County Directors of Social Services before this hearing. I am James A. Wight, Director of the Wake County Department of Social Services and designated by our Association president, Ms. Ann Harrell, Director of the Beaufort County Department of Social Services to make this presentation. The N.C. Association of County Directors of Social Services represents 96 of the 100 county directors of social services in North Carolina.

The basic position of our Association is that we share the concern of yourselves about the abuse of the Food Stamp Program. We recognize that any abuse of this the basic nutritional program available to the low income people of the United States seriously erodes the potential for this program to continue to successfully meet one of the nation's prime social problems, that of hunger. It is regrettable that, with this program, as with so many others, there are people who abuse or take unfair advantage of government programs. But, in our effort to expose the abusers, let us not forget the vast majority in desperate need and who do use this program appropriately and honestly.

The full statement of our Association's position is contained in the letter addressed to you on February 28, 1984, a copy of which I am enclosing as appendix A with this statement.

The directors of social services throughout North Carolina have been very active participants in the effort to reduce error rates which has been successful in this state. I cite the fact that North Carolina is one of only eleven states that has had no sanctions levied against it either under the Michael Amendment or the Tax Equity Finance Reform Act (TEFRA). Further, the state, through a cooperative effort of both the State Division of Social Services and the various counties, has significantly reduced our error rate from a high in fiscal year 1981 of 14.8% to 7.1% in fiscal year 1983. For the past two fiscal years, the error rate for the state has been below the federal tolerance level. In looking at this progress, I discussed this with my Food Stamp staff and they identified, and I concur, that this error rate reduction has been attributed to three major trends which I feel, while significant in Wake County, are also typical throughout North Carolina. The first of these has been an increase in staff as compared to caseload in Food Stamps and an improved training of this staff, both local effort and state generated effort. Caseload to staff ratio is still relatively high. There has been a definite improvement. In Wake County, we are still dealing with between three and four hundred cases per eligibility worker, and are continuing to process an average of in excess of five hundred applications per month. A second major improvement which has been made has been a wider use in many counties and in our own for new workers and for critical areas of 100% second party review by a better trained level of supervisors and lead workers. Finally, the third major area has been the positive affects of automation in the Food Stamp Program. The state Food Stamp Information System is providing some benefit calculation features which are significantly reducing mathmetical errors. Also, cross-matches to obtain verifications with such records as Employment Security Commission, both wage data and unemployment benefits, and vehicle registrations through the Department of Motor Vehicles is preventing errors and potential fraud at the front end of the system rather than after the fact.

However, if we, as a state, are to achieve the kind of increasing downward error rate reduction, some system change or regulation change in the Food Stamp Program must also be introduced. Attached to this statement you will find a brief summary citing the current North Carolina Food Stamp Manual section with some of the various problem areas with suggested improvements. This is coming from the Wake County Food Stamp operations and does not necessarily reflect and has not been reviewed by the Association, and therefore must be considered as our input only. In reviewing the bill which you submitted to congress on October 25, 1983, I find that in the definition section on Household Definition and Student Loans, Grants, and Income, it does appear that your proposed bill addresses positively two of these major areas. The federal income tax intercept concept is working well in the Child Support Enforcement area and for those established Food Stamp repayments would provide an effective measure of recoupment. Our comments are included as Appendix B to this statement.

In considering the problem of fraud, waste, and abuse in the Food Stamp Program, this must be kept in perspective. Otherwise, the baby may well be thrown out the window with the bathwater. An example of this has been the USDA audit here in Wake County of the cases who had failed to report income and income was discovered through a crossmatch with Employment Security Commission records. Some 577 cases were found. However, this was over a two-year Food Stamp period and, when considering the total number of cases on an unduplicated count basis, this constituted only between 5% and 6% of our entire caseload during that two-year period. It should also be noted that to date, some 59 of those 577 cases were found to be totally unfounded, and 47 were of such minor nature that, under present USDA rules, were classified as suspended. Thus, better than 18% of the total were virtually dropped. This percentage of five or so percent of the caseload being suspected of being fraudulent appears to be borne out by studies done from the state's quality control sample. It should also be noted that frequently, when a large series of arrests are made as a result of Food Stamp fraud and abuse investigations, a significant portion of those arrested are not the fraudulent clients who are misrepresenting to obtain benefits to which they are not entitled or withholding information for the same results, but are traffickers in Food Stamp coupons or merchants inappropriately utilizing Food Stamp coupons. The recent editorial of March 14 in the Fayetteville Times addresses this issue and I am including this as Appendix C. This is not by any means to say that side of fraud and abuse should not be pursued. However, to blame the Food Stamp Program for that type of criminal abuse one would have to pursue through the same line of logic of blaming the banking system for the criminal use of bank credit cards or the U.S. Treasury for criminal use of government printed currency. Instead, on a more positive note, efforts at the local level and at the state level continue to be enhanced toward addressing the issue of fraud and abuse. Enclosed as Appendix D is a brief summary of some nine actions initiated by the State Division of Social Services, many of these with input from the local departments, toward enhancing the fraud control activities of the county departments of social services. I would commend these and our error rate reduction methodologies cited above to the Committee for study and for any way that the federal level of government as a partner with the state and local levels in this very vital nutrition program can enhance our efforts.

Thank you for your consideration and for allowing our Association to make this presentation.

[APPENDIX A]

NORTH CAROLINA ASSOCIATION OF COUNTY DIRECTORS OF SOCIAL SERVICES,
February 28, 1984.

Hon. JESSE HELMS,
Congress of the United States,
4213 Dirksen Senate Office Building,
Washington, DC.

DEAR SENATOR HELMS: An article appeared in the Charlotte Observer on February 2, 1984 in which you were quoted as being extremely critical of North Carolina's Food Stamp program. I have attached a copy of this article.

First of all, let me say that our Association shares your concerns about any abuses of the Food Stamp program. Our problem is around the unbalanced approach which you have taken toward the Food Stamp program, especially when compared to other federal programs where documented abuse also occurs. In every segment of our society there are people who abuse and take unfair advantage of government programs, but in our efforts to expose the abusers let us not forget the many who are in desperate need and do use the programs appropriately and honestly. Over the past three years, two members of our Association have appeared and testified before your Committee on Agriculture in support of the Food Stamp program. We are on record as wanting to bring about the kinds of changes which will reduce fraud and abuse, but only in those situations where those changes will be cost effective and not have a negative impact on those who are in need of and rely on food stamps to meet their basic nutritional needs.

It should be noted that the Food Stamp program is and probably has been one of the most effective programs designed and implemented in response to a national social problem, hunger. Studies done by the Department of Agriculture and independent studies have verified the effectiveness of the Food Stamp program in reducing nutritionally related health problems and an improvement in the overall health of the American people. Many of these gains have been reversed in the past few years, and many believe that the reversal has occurred as a result of cuts in the Food Stamp and other nutrition programs, many of which you supported.

In the years in which you have been in the U.S. Senate and especially since you have chaired the Senate Agriculture Committee, we have never seen you quoted as having said the Food Stamp program addresses a very serious problem or that it had been effective in any way in reaching those who were in need. You are a strong supporter of the tobacco program, and the program does help North Carolina farmers. It should be pointed out that the farm subsidy programs which by comparison are much more expensive than the Food Stamp program, $28 billion as compared to $13 billion, aid a very small percentage of farmers, 4.6 percent.

Let's look now at the record in North Carolina. Thirteen states were faced with fiscal sanction in January 1982. North Carolina was in this number, with an error rate of 15.26 percent for the period October 1980–March, 1981.

North Carolina appealed the liability imposed in January, 1982, and a Special Corrective Action Plan to reduce errors and demonstrate our good faith effort to improve the error rate was developed and implemented. This plan included a broad range of activities, including special training, monitoring, increased verifications, acceleration of Food Stamp automation, and wage matching. Since implementation of this plan, the error rate base on Quality Control findings has continued to decline as shown.

[In percent]

	Fiscal year—				
	1981	1982	1983	1984	1985
Error rate	14.8	12.3	7.1		
Federal tolerance	12.6	13.3	9.0	7.0	5.0

North Carolina is well within the federal tolerance level for FY 1982 and 1983, and foresees no problems with meeting the more restrictive upcoming tolerance levels.

There are four outstanding Office of Inspector General audits:

1. Statewide audit of all programs areas. The draft review has been completed and is in Atlanta.
2. Special impact audit on Management of Food Stamp claims. This is part of a national audit for which we were randomly selected—exit conference scheduled for 9:30 a.m. on February 3, 1984.
3. Guilford County Wage Match Audit.
4. Wake County Wage Match Audit.

The only indications of problems given to us have been that we did not begin wage matching in January, 1983, and that follow-up on cases matched is delayed. Due to an erroneous interpretation given us by the Regional Office, we did not begin Wage Match in January. However, we did complete Wage Match of all household members by December 31, 1983, and are taking measures to expedite follow-up procedures.

North Carolina is proud of its efforts to combat recipient fraud and abuse. Our collections of food stamp overpayments rank sixth in the nation. Between July, 1982, and June, 1983, our county departments collected $901,000 in food coupons and cash and county fraud workers completed 3,558 investigations. Of that number, 565 were successfully prosecuted within the court system and 1,208 were found guilty by local administrative fraud hearings. Emphasis is also placed on fraud prevention. Video tapes and written materials on interviewing techniques are used in the training of our eligibility workers.

I am attaching for your information a copy of an article which appeared in the News and Observer and speaks to the reduction in error rates for AFDC and Food Stamps.

Our Association strongly supports the effective and efficient operation of the Food Stamp program and would welcome the opportunity to have a representative of our Association testify before your Committee as you move toward reauthorization of the Food Stamp program in 1985. We have communicated with you on numerous occasions concerning the requirement for monthly reporting and are very much concerned about the negative impact that this requirement may have on our error rates and, therefore, the possibility of sanctions. I am attaching, for your information, a summary of the Illinois demonstration on monthly reporting and retrospective budgeting which was conducted by Abt Associates under a contract with the

Department of Agriculture and the Department of Health and Human Services. You will note that 92 percent of the participating families that were terminated from the Food Stamp program for failure to submit a monthly report were otherwise eligible. I recognize the need to reduce costs in the federal budget, but hope we do not choose a route which deprives eligible people of badly needed benefits.

Your interest in the performance of the Food Stamp program in North Carolina is appreciated, and we do hope that if you have specific indications of problems in North Carolina's Food Stamp program, that you will notify the State Department of Human Resources and our organization so that we may work to resolve them.

Sincerely,

Ann Harrell,
President.

Enclosures.

[Reprint from The Charlotte Observer Thurs., Feb. 2, 1984]

SOME ON HELMS PANEL RESIST HIS FOOD STAMP PLAN

(By Bill Arthur)

Washington.—Sen. Jesse Helm's proposal to shift responsibility for running the $13 billion-a-year food stamp program from the federal government to the states ran into stiff opposition Wednesday from his colleagues on the Senate Agriculture Committee.

While a half-dozen witnesses waited to appear at a hearing of the committee, of which Helms, R-N.C., is chairman, the senators themsleves debated the issue as if they were on the Senate floor. Most said the plan would leave gaps in food stamp coverage and produce inequities from state to state.

It would make the "feeding of hungry people a political issue on the state level," said Sen. David Pryor, D-Ark.

With strong opposition in his own Agriculture Committee, including that of the Influential Sen. Bob Dole, R-Kan., who heads the nutrition subcommittee, Helms's bill appears unlikely to pass.

"He loses everybody that's left of far right," said Gary Auxler, press secretary to Sen. Walter Huddleston, D-Ky., ranking minority member of the Agriculture Committee.

But the food stamp program has long been a favorite Helms target. It may especially be one this year as he faces a tough reelection campaign against Gov. Jim Hunt, a Democrat. Helms shows no signs of letting up.

Last month, he predicted there would be "more disclosures about the depth of the corruption (in the program) in North Carolina and other states, but especially North Carolina."

Some 540,000 North Carolinians receive more than $250 million a year in food stamp benefits. In South Carolina, some 420,000 people receive about $213 million a year in benefits.

Helms also is contemplating hearings on the Grace Commission's recommendations for cuts in the cost of running the U.S. Agriculture Department and the food stamp program.

The commission recommended to President Reagan last month changes that could save $6.5 billion in the food stamp program over three years.

Helms said Wednesday his bill would reduce what the Reagan administration says is $1 billion a year in fraud and abuse.

Helms said taxpayers are concerned and angry. "I don't make an appearance anywhere," he said, "that people don't grab onto me and say. 'Let me tell you what I saw.' "

Helms' top Agriculture Committee aide, George Dunlop, said the senator's interest in correcting food stamp abuse is of long standing and not merely a campaign issue. Asked if Helms believes Hunt is vulnerable on the issue, Dunlop said North Carolina has had "one of the highest error rates in the nation."

Referring to Hunt, he said, "He's had eight years to run that thing down there, and it ain't been run right." Dunlop predicted Helms' bill would pass.

The bill would allow states to choose to make food stamps a block grant program. The federal government would provide each state with a set amount of money each year for the purpose, but each state would be free to set standards and procedures for recipients' eligibility.

Hunt and the National Governors' Association oppose Helms' plan. Brent Hackney, a Hunt press aide, said, "The food stamp program was set up as a federal program . . . for reasons of equity and fairness, and that reasoning still applies."

Opponents say fixed funding under the block grant plan would leave states unable to adjust to a recession or other misfortune.

Huddleston said, "The amount and type of assistance available to low-income persons could vary greatly depending on the state in which they reside."

[The following newspaper article was unidentified.]

(By Todd Cohen)

North Carolina has cut in half its error rate in handling food stamps and payments of Aid to Families with Dependent Children, Gov. James B. Hunt Jr. said Tuesday.

Hunt said at a news conference that for the six months that ended in April, the error rate in the state's federally funded $260 million-a-year food stamp program was 6.5 percent. That compares with an error rate of 14 percent for the six months that ended in April 1981.

For the six months that ended in April, Hunt said, the error rate in the AFDC program was 2.3 percent, compared with an error rate of 4.7 percent for the six months ended in October 1981.

"I won't be satisfied until we reduce the error rate in our public assistance programs to zero," Hunt said. "But we are making tremendous strides in guaranteeing that only those North Carolinans who need help are receiving it."

As of April, the food stamp program provided benefits to 573,000 North Carolinians, John M. Syria, director of the state Division of Social Services, said in an interview.

The $166 million-a-year AFDC program provides benefits to 177,000 people, Syria said.

Because of the reduction in errors in the food stamp program, the U.S. Department of Agriculture has lifted a $2.5 million penalty it imposed in January, Cherie Morris, director of family nutrition programs in the department's Atlanta regional office, said Tuesday in an interview.

She said a second penalty of $3.5 million that was imposed in January 1982 would be lifted in about six months.

The penalties would have been enforced unless the state took corrective action, Ms. Morris said.

"So far the state has demonstrated a reduction in the error rate and have complied with the things they promised they would do to correct errors, and those results are showing results," she said. "We have no reason to believe that will not continue."

The national error rate in the food stamp program is a little more than 13 percent, Ms. Morris said.

The national error rate in the AFDC program was 7.7 percent for the year ended Sept. 30, 1981, the most recent period for which figures are available, said Perry R. Childers, a spokesman in the Atlanta regional office of the U.S. Department of Health and Human Services.

Hunt attributed the reduction in error rates in the two programs to better screening of applicants, better training by county social service workers, use of a computer system to handle applications more quickly and more accurately and simplification of reporting forms.

He said counties had added 110 workers to assist in the two programs.

Syria of the Division of Social Services said the new computer system would be in 22 of the state's 100 counties by the end of this month and would be in all counties by the end of June 1984.

SUMMARY OF FINDINGS FROM ILLINOIS MONTHLY REPORTING EXPERIMENT

The following research findings are from Payment and Caseload Effects of Monthly Reporting in the Food Stamp Program, a draft report prepared by Abt Associates of Cambridge, Massachusetts, under contract to the U.S. Department of Agriculture and to the U.S. Department of Health and Human Services. The report presents the findings of the first full year of a major federally-funded demonstration project in Illinois that tested the use of monthly reporting and retrospective budgeting in food stamps. This effort represents the first rigorous analysis of monthly reporting and retrospective budgeting in food stamps.

The report, which Abt submitted to the Food and Nutrition Service in mid-October, contains the following research results:

1. No Impacts on Error Rates: The research findings on the impact of monthly reporting on error rates were negative. Not only did monthly reporting fail to

reduce overall error rates, but it actually led to increases in client-caused overissuances and agency-caused underissuances. Abt Associates reported:

"Virtually all of the differences [in variances leading to overissuances] between the monthly reporting groups and the control group are small and statistically insignificant. The exception is that the impact of client-caused variances leading to overissuances was significantly higher in the experimental group [i.e., the monthly reporting group] than in the control group, suggesting that the monthly reporting requirement was not helping to reduce aggregate overissuances." (p. 34; emphasis added).

"Payments to ineligibles were substantially and significantly more frequent in the monthly reporting groups than in the control group." (p. 54).

"Reporting requirements did not lead to reduced client error, as was anticipated." (p. 47).

Monthly reporting also resulted in an increase in agency-caused underissuances. Abt observed that "agency-caused errors were primarily responsible for the greater aggregate underissuances that were observed [in the monthly reporting groups] throughout the demonstration." (p. 37).

2. Impacts on in Benefit Costs: For the 12 months of the demonstration project, monthly reporting resulted in increased benefit costs of 5.5%. The increased costs primarily occurred during the first six months of the project and were related to implementation problems. Even after the implementation problems were largely cleared up, however, monthly reporting still failed to produce savings. During the second six months of the demonstration, monthly reporting neither increased nor decreased overall benefit costs.

3. Impact on Clients: Abt found that 92% of the households whose cases were closed for failure to file a monthly report were households that were otherwise eligible in all respects and met the food stamp "need requirements."

4. Administrative Issues: Monthly reporting led to a larger number of brief case closures followed by case reopenings. In many cases, clients lost benefits for some period of time before their benefits were reinstated.

5. Retrospective Budgeting: The report found that retrospective budgeting produced no appreciable reduction in benefit costs. Costs under retrospective budgeting were found to be three-tenths of one percent lower than under prospective budgeting. Abt reported that ". . . it is clear that the measured difference [between prospective and retrospective budgeting] is not a critical one for policy purposes." (p. 49).

IMPLICATIONS OF THE NEW RESEARCH

The Illinois research findings are the latest in a mounting array of evidence that monthly reporting does not live up to earlier hopes that it would reduce errors and costs. There is now growing concern that monthly reporting may be at least as likely to increase error rates as to reduce them.

The research also demonstrates that earlier claims by some federal officials that retrospective accounting might produce sizable budgetary savings are unfounded.

Finally, the research provides further confirmation that most of those terminated under monthly reporting are not households whose incomes have risen over the eligibility limits—but rather are households in legitimate need who, for whatever reason, appear to have difficulty coping with the increased government paperwork required. This, too, should be a source of significant concern—especially when numerous reports and studies suggest that hunger is on the increase.

The latest research appears to underscore the wisdom of carefully targeted approaches to monthly reporting rather than using monthly reporting systems to blanket large portions of state caseloads.

[APPENDIX B]

Suggested areas of Food Stamp policy and regulation needing changes. To improve the Food Stamp Program and to enable its administration to abide by the reduced error rate.

Household composition

N.C. FS Manual Citation: 6030—A. Individual living alone

B. Individual living with others but who customarily purchases food and prepares meals separate and apart from the others

C. Group of individuals living together for whom food is purchased and consumed together

D. Individual over 60 and disabled, living with and eating with others, who is unable to prepare and purchase meals separately due to permanent disability

Restrictions

Separate HH status shall not be granted to:
A. Children under 18 years of age under the parental control of a HH member
B. Parents and children living together (blood or marriage) except:
1. If parent ineligible alien or student/or disqualified
2. At least one parent is 60 or older or disabled (and eating separately)
3. Spouses
4. Siblings (unless 60 or older or disabled or ineligible alien/student or disqualified)

Suggestion: Everyone under same roof should be considered one household for FS purposes.

Students

6090—Any person who is age 18 through 59, physically and mentally fit, and enrolled at least half time in an institution of higher education (past high school) is ineligible to participate in the FSP unless: He/she must meet the one of the following:
A. Be employed a minimum of 20 hours per week and be paid the hourly federal minimum wage
B. Participating in federally financed work-study program during regular school year
C. Be responsible for the care of one or more dependent HH members under 6 or under 12 if adequate child care not available
D. Be a recipient of AFDC

Student income and resources

6092—Income and resources of an ineligible student living with a HH will not be considered in determining eligibility or level of benefits of the HH.

Suggestion: Count income and resources of ineligible student toward HH. Many times the head of the household is the student. Therefore, his/her earnings do not count toward his dependent(s).

Voluntary quit

6122—An applicant HH whose primary wage earner voluntarily quits his/her most recent job w/o good cause will not be eligible for participation in the program (within 60 day period prior to date of application).

Currently unemployed = less than 20 hours per week or less than federal minimum wage x 20 hours.

Determine good cause—if not good cause, the HH will be disqualified for a period of two calendar months beginning with the month of the quit.

Exemptions

6122.2—A. Primary wage earners in HH's certified for the program at the time of the quit.

Suggestion: The certified individual should be treated the same as the applicant.

Job search

6123—Persons required to register for work will be subject to the appropriate job search requirements.

Suggestion: Too many exemptions—more follow-up needed—what check by ESC to determine if person actually applied or was interviewed for a job.

Social Security Numbers

6060—Constant changes in policy—presently if HH member w/o good cause does not provide or apply for SS# the household is disqualified.

Coming effective 4/1/84—only the individual will be disqualified.

Suggestion: Continue to disqualify the HH. This would be consistent with disqualification of HH's for failing to register for work or cooperating with Job Search.

Deductions

6260—A. Medical bills—deduct those bills over $35 for those over 60 or receiving SSI or disability under SSA—if not paid from another source.

Suggestion: Give everyone a flat deduction as all have medical needs.

Alternative: Give all in the target group (i.e. over 60) a standard deduction w/no cap.

B. Shelter—Has continued to change making applying appropriate rules difficult and cumbersome.

Suggestion: Give flat deduction for all households for consistency—for multiple households—divide equally—Do away with other disregards such as: 18% for earned income, $85 for all income, child/adult day care.

Alternative: Different flat deductions for age groups (cut-off 60 and up and disabled).

Client appeals

6390—Prior to any action to reduce or terminate a HH's benefits within the certification period, the ES shall provide a minimum of 10 working days advance notice.

Continuation of benefits

6394—If the HH requests a fair hearing during the advance notice period and the certification period has not expired, the HH's participation shall be continued on the basis authorized immediately prior to the notice of adverse action.

Suggestion: Send client adequate notice only. If benefits are increased, an advance notice is not required.

Do not allow for continuation of benefits—If fair hearing reveals county error—county would give back benefits—If fair hearing upholds county client would not have to repay FS. It is difficult, if not impossible to get back benefits due to this policy.

Job Training Partnership Act

IFA 15-84—Allowances, earnings and payments to individuals participating in programs under this Act shall not be considered as income for Food Stamp purposes.

This program used to be CETA. Under CETA, earnings were counted. It is not consistent with counting earnings from other individuals with same food and nutritional needs.

Alternative: If we are not allowed to consider earnings as in usual cases, we would propose to count at least one-half.

[APPENDIX C]

[Reprint from Fayetteville Times, Mar. 14, 1984]

SELECTIVE OUTRAGE

A six-month federal investigation of alleged food stamp fraud in Cumberland County, conducted at a cost of $70,500 (not including the cost of trying the cases) and nearly a year of work-days for FBI agents, has yielded 33 convictions.

This is not to fault law enforcement agents for doing their jobs. After all, food stamp fraud is no better than mugging or shoplifting.

But U.S. District Attorney Sam Currin can hardly prove his claim that these meager results show food stamps are in wide use as an "underground currency" in eastern North Carolina. His own figures suggest just the opposite.

Those 33 convictions were for offenses ranging from one-year misdemeanors to 20-year felonies, charges ranging from swapping cars for food stamps to cash transactions involving up to $2,030.

Far from proving widespread corruption, this says that the worst of the abuse is perpetuated not by thousands of ordinary stamp recipients loading their plates with sirlion and washing it down with vodka, but by a few wily pros and outsiders who prey on the system.

The emptiness of the steak-and-vodka myth (perpetuated by no less than President Reagan himself) should have been evident long ago.

For one thing, the stamp abuser in the supermarket scenario is always black. The average food stamp recipient is white.

For another, the irate citizens who supposedly witness such abuse every time they shop never seem to carry their civic-mindedness to the point of confronting or reporting the store manager, thereby thwarting the illegal transaction and saving the public's hard-earned tax money.

But foes of the basic anti-poverty programs have seldom had much use for fact or logic.

Should the Social Security funds be cut by the amount that cheats rip off, by the amount sneak-thieves steal from the mailboxes of the elderly, by the amount siphoned off by con men offering to trade swampland "resort property" in Florida for the meager resources of the nation's retirees? Just try it—and then get ready for a revolution.

Yet that is exactly the approach that has misguided the various attempts to reform the basic anti-poverty programs.

Witness President Reagan's crusade on "fraud, waste and abuse." This, as it turned out, amounted to nothing more than deep cuts based on offhand guesses at how much was being wasted and stolen, and cuts imposed to penalize the states (by penalizing the truly poor) for their allegedly shoddy bookkeeping.

Even that failed to satisfy U.S. Senator Jesse Helms, who, as chairman of the Senate Agriculture Committee, complained that Mr. Reagan was a softie. The food stamp program, he insisted, was still rife with fraud and waste, and should have been cut by 40 percent.

Worse yet were the attempts at actual reform—paperwork requirements that quickly engulfed local social services agencies.

In Hoke County, for example, the backlog generated by these so-called improvements resulted in non-delivery of benefits not only to those whose eligibility was suspect, but also to those who were fully entitled to stamps and even some families not even required to fill out the forms.

Hooray for giving the 33 stampsters their just desserts.

The whole food stamp program wouldn't buy one MX missile, but justice is justice, and should be applauded.

At the same time, however, the country would be better served if the grim-faced reformers who stalk the anti-poverty programs would work up as much enthusiasm for curbing tax evasion, corporate welfare, Pentagon contract-padding, and the really exorbitant underground currencies enjoyed by the truly non-needy.

[APPENDIX D]

The following represent recent actions taken by the Division of Social Services over the past several months which should do much to enhance the fraud control activities in county departments of social services:

1. Effective October 1, 1983, the Division established a position for coordinating activities associated with the detection and prevention of fraud in the AFDC and Food Stamp Programs. The position will also provide technical assistance to county staff in areas of establishing and maintaining procedures for collecting overpayments and overissuances.

2. A Special Investigation Committee has been established to work with the Division's Coordinator for Fraud Detection and Prevention. The committee is composed of county investigative staff and meets every other month. The committee is responsible for reviewing current policy and procedures related to fraud control and for making recommendations for change, improvement, etc.

3. A Special Investigations Handbook has been developed for use by county investigative staffs. The Handbook was developed by the Special Investigations Committee and was modelled after similar handbooks used in Alabama, California, and Virginia. The Handbook covers such topics as Conducting an Investigation, Case Evaluation, Civil and Criminal Actions and Enforcement of Collections. The Handbook should benefit both the experienced and newly appointed investigator in administering an efficient fraud control program.

4. The Division has had preliminary discussions with the North Carolina Justice Academy regarding the possibility of developing a two to three day training seminar for investigative staff. A test seminar has been held for staff in Region III and plans are to repeat this seminar for Region II in late April or early May.

5. The United States Department of Agriculture has awarded the Division and the Center for Urban Affairs, North Carolina State University, funds for conducting a Computer Assisted Eligibility Interview project. This project proposes to address problems associated with the eligibility interview that lead to fraud and error. The overall goal of the project is to develop, implement, demonstrate and evaluate a computer-assisted interview system that will not only reduce errors but also enhance productivity.

6. The Division of Social Services has recently participated in an eight state (Region IV) USDA, FNS, Interjurisdictional Match program. Through this match a computer file of each state's participating households will be automatically matched against the other 7 states' files to detect possible duplicate assistance. In addition, each state's computer files will be matched against the other states' Employment Security Commission files to detect possible unreported income from wages and/or Unemployment Benefits.

7. The Division is actively pursuing the possibility of expanding its computer matching capabilities in the Food Stamp Program. In addition, to maintaining "on-line" access to Employment Security Commission Wage and Unemployment Insur-

ance Benefit files, the Division has contacted the States of Virginia, New York, New Jersey, and the District of Columbia regarding the possibility of matching Food Stamp files to detect duplicate participation

8. The Division conducts periodic workshops for county staff involved in fraud control activity and actively participates in national and regional conferences devoted to error reduction and fraud prevention. In October 1983, the State hosted a Fraud Prevention Conference sponsored by the United Council on Welfare Fraud. Both State and county staff have been invited to participate in an upcoming Region IV Error Reduction Conference in Atlanta.

9. The Department of Human Resources maintains a toll-free care-line number through which private citizens can call to the State office and report cases of suspected fraud. These reports are researched by the Division to determine if the individual is an active case and, if so, the complaint is referred to the appropriate county department for follow-up and action.

NORTH CAROLINA COUNCIL OF CHURCHES,
Raleigh, NC, March 19, 1984.

Hon. Senator JESSE HELMS,
Chairman, Senate Agriculture Committee,
U.S. Senate,
Washington, DC.

SENATOR HELMS: On behalf of the NC Council of Churches, I would like to submit the attached information to be entered into the proceedings for the Food Stamp over-sight hearing today in Raleigh, NC.

Attached is a report prepared by our Office on the extent of fraud and abuse in the Food Stamp Program.[1] There has been substantial media coverage on this subject and I believe you and other members of the Senate Agriculture Committee will find this report helpful in putting this subject in perspective.

We share you concerns related to any abuses of the Food Stamp Program, but we believe the program is an effective means to provide food assistance to the poor citizens of our nation. We support the Food Stamp Program. We oppose spending reductions which are associated with the recommendations to the Grace Commission and are a part of the McClure Bill. We are also opposed to the Block Grant Proposals. Spending reductions would mean fewer poor people would receive food assistance. We believe there are hungry people now, and that the Food Stamp Program should not receive further funding cuts.

The NC Council of Churches joined with twenty-one (21) other North Carolina groups in January 1984 to make a statement on hunger. I have attached a copy of this statement for you to enter into the proceedings of this hearing.

Your consideration of these concerns will be appreciated.

Sincerely,

S. COLLINS KILBURN, *Executive Director.*

Attachments.

ORGANIZATIONS ATTACK PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE REPORT

Twenty-two organizations from across North Carolina, including many of the state's largest church denominations, as well as organizations representing senior citizens and low-income children and labor groups today sharply criticized the report adopted last week by the President's Task Force on Food Assistance.

"We are disappointed and dismayed at the report," the organizations said in a statement issued in Raleigh today. "After working for four months and spending the taxpayers' money, the Task Force tells us little more than that hunger exists—and then proposes recommendations that would, on balance, make this tragic problem yet worse."

Religious organizations issuing the statement include the North Carolina Council of Churches, the Ministry Group on Church and Society of the Presbyterian Synod of North Carolina, the Noth Carolina Commission for Racial Justice—United Church of Christ, the General Baptist State Convention, the North Carolina Conference of the African Methodist Episcopal Church, and the Western North Carolina Conference of the African Methodist Episcopal Church.

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[1] The August 18, 1982 study has been retained in committee files.

Other organizations signing the statement include the North Carolina Association of Educators, North Carolina League of Women Voters, North Carolina Public Health Association, North Carolina Child Advocacy Institute, North Carolina Hunger Coalition, North Carolina Chapter of the National Lawyers Guild, North Carolina Chapter of the National Association of Social Workers, Governor's Advocacy Council on Children and Youth, North Carolina Social Services Association, North Carolina American Association of Retired Persons, North Carolina Association of County Directors of Social Services, North Carolina AFL-CIO, Community Food Bank of North Carolina, North Carolina Conference for Social Services—Social Policy Section, State Council for Social Legislation, and the North Carolina Association of Black Social Workers.

The 22 organizations issuing the statement leveled their strongest criticism at the Task Force proposal to authorize states to replace federal nutrition programs with block grants. "We regard the proposal to authorize the replacement of school lunch and other child nutrition programs, food stamps, and maternal and infant nutrition programs, with state block grants as nothing short of a disaster for the nation's poor," the organizations said.

The groups charged that the block grant proposal would "lead to significant benefit reductions during recessions in states where unemployment rises rapidly because the states would not receive the funding needed on a timely basis to meet the additional need."

The organizations also warned that in some states the Task Force's state grant proposal "would likely result in benefit reductions for certain types of poor families who have little or no political leverage—especially poor women and children, many of whom are members of minority groups."

In addition, the organizations decried "the Task Force's effort to deny the seriousness of the hunger problem" which they said is belied by "conditions that religious agencies, private charities and voluntary agencies encounter every day."

They also criticized what they termed "the Task Force's attempt to portray the large budget cuts enacted at the Administration's urging as having no relationship to the increase in hunger." They said the Task Force had "swept under the rug any connection between benefit cuts and increased hunger" and had "failed to provide a careful and balanced study of hunger."

STATEMENT ON PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE

We are disappointed and dismayed at the report of the President's Task Force on Food Assistance. After working for four months and spending the taxpayers' money, the Task Force tells us little more than that hunger exists—and then proposes recommendations that would, on balance, make this tragic problem yet worse.

The Task Force's effort to deny the seriousness of the hunger problem is belied by numerous careful studies and conditions that religious agencies, private charities, and voluntary agencies encounter every day. The Task Force's manipulation of statistics cannot hide the reality of hunger amidst plenty.

Most distressing is the Task Force recommendation to start the dismantling of the federal anti-hunger efforts that have been painstakingly built on a solid bi-partisan basis over the past 15 years. We regard the proposal to authorize the replacement of school lunch and other child nutrition programs, food stamps, and maternal and infant nutrition programs with state block grants as nothing short of a disaster for the nation's poor. The current system—under which a poor family is assured of receiving food aid regardless of which state it lives in—would end. The block grants that would replace the current programs could lead to significant benefit reductions during recessions in states where unemployment rises rapidly, because the states would not receive the necessary funding on a timely basis to meet the additional need. This would result either in failure to provide food aid to the unemployed poor or in taking some food away from poor elderly persons and families to free up resources to help the unemployed. We cannot accept such a callous approach.

In addition, in some states the block grant approach would likely result in benefit reductions for certain types of poor families who have little or no political leverage—especially poor women and children, many of whom are members of minority groups.

Many of our organizations have been working in the hunger field far longer than the members of the President's Task Force, and we remember that before the federal government assumed a larger role in this area, some states denied food stamps to many families living in poverty while other jurisdictions declined to provide free school lunches to poor children who could not pay for them. We join with the nation's governors, mayors, and county officials in opposing this ill-advised recommendation.

We are also struck by the Task Force's attempt to portray the large budget cuts enacted at the Administration's urging as having no relationship to the increase in hunger. Since food stamp benefits. averaging only 46 cents a meal, often run out before the end of each month, it would seem logical for the Task Force to have examined whether cuts in benefits have made matters worse. Instead, this issue is ignored and any connection between benefit cuts and increased hunger is swept under the rug.

We deeply regret that the Task Force failed to provide a careful and balanced study of hunger in our country. Positive action is needed now so that low income children, elderly persons, and poor families do not have to go without food. The Task Force failed to move us toward this goal.

ORGANIZATIONS ENDORSING STATEMENTS OPPOSING THE PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE

North Carolina Association of Educators
North Carolina League of Women Voters
North Carolina Council of Churches
North Carolina Public Health Association
North Carolina Child Advocacy Institute
North Carolina Hunger Coalition
North Carolina Chapter of the National Lawyers Guild
North Carolina Chapter of the National Association of Social Workers
Governor's Advocacy Council on Children and Youth
North Carolina Social Services Association
North Carolina American Association of Retired Persons
North Carolina Association of County Directors of Social Services
North Carolina AFL-CIO
Community Food Bank of North Carolina
North Carolina Conference for Social Services—Social Policy Section
Ministry Group on Church and Society of the Presbyterian Synod of North Carolina
State Council for Social Legislation
North Carolina Commission for Racial Justice—United Church of Christ
General Baptist State Convention
North Carolina Association of Black Social Workers
North Carolina Conference of the African Methodist Episcopal Church
Western North Carolina Conference of the African Methodist Episcopal Church

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NORTH CAROLINA SOCIAL SERVICES ASSOCIATION,
March 19, 1984.

Hon. Senator JESSE HELMS,
Chairman, Senate Agriculture Committee,
U.S. Senate,
Washington, DC.

SENATOR HELMS: Attached is written testimony on behalf of the North Carolina Social Services Association for the over-sight hearing on Food Stamps held March 19, 1984 in Raleigh, N.C.

In your Committee's deliberations, keep in mind that the Food Stamp Program is one of the most effective social programs developed since the Social Security Act. The data available on the health and nutritional status of low-income Americans documents the success of the program. We support the Food Stamp Program and encourage the Agriculture Committee to favorably consider the recommendations enclosed in this testimony.

We would appreciate your entering this testimony into the official records of this hearing.

Sincerely,

(MRS.) PAT BULLARD,
Executive Director.

JIM WILLIS,
President.

The North Carolina Social Services Association is a state-wide organization with a membership of more than 3500, primarily employees of county Departments of

Social Services. We requested to give oral testimony both at this hearing and at previous hearings on the Food Stamp program, but have been rejected.[1] Our organization has been in existence since 1967 and we have contacted you on numerous occasions regarding the Food Stamp program and other Social Services related issues.

Our Association shares the concern that abuses of the Food Stamp Program, as well as all Social Services Programs, be curbed, and we support changes which will reduce fraud and abuse where those changes will be cost effective without having a negative impact on individuals who rely on food stamps to meet their basic nutritional needs.

We support the Food Stamp Program as an effective means to reduce nutritionally related health problems and to improve the overall health of our people. Studies have documented that Food Stamps have increased significantly the nutritional level of the poor. However, in the last few years, the number of persons living in poverty has increased and the number of persons hungry has also increased, as documented by several studies. Massive changes, including budget cuts, cannot be ignored as a major reason for both of these occurrences.

In your deliberations on the Food Stamp Program, consider the massive changes made in the Program in the past few years. These massive changes brought about numerous regulations and paper-work changes for the workers implementing the Food Stamp program with no less than 22 major changes taking place from October 1982 through December 1983. All of these changes are tremendously confusing to the recipients and to the workers, causing more than their share of errors often confused as fraud or abuse. The program has become so complicated that it is difficult to implement effectively, again confusing both recipients and workers. The best idea for program reform would be to simplify the complex requirements without further program cuts and leave those changes in place for no less than two years. In addition, changes to be made should be sent to the states with a maximum amount of lead time to be implemented. Presently, regulations arrive in the states at the very last minute before implementation, leaving the state and counties little preparation time and adding to the potential for errors, fraud, or abuse.

From our view-point, Washington is the major cause for excessive errors, fraud or abuse. As cited above, the frequent and numerous changes resulting in last-minute regulations and paper-work are the major culprit. We support having Congress simplify the program, reduce paper-work, and keep regulations in place for a maximum set time with future changes made giving maximum preparation time to implement back to the state. Also, some of the recent changes have not left enough time to respond to proposed regulations.

Despite these major obstacles from the federal level, we do not support the idea of turning the Food Stamp Program over to each state by any means, including a Block Grant proposal. Hungry people throughout the entire nation should be provided assistance with uniformity, and no state or its citizens should be punished for conditions that cannot be controlled, such as an economic downturn, severe unemployment, etc. A Block Grant with less money would permit a state to serve fewer people and fail to monitor for abuses because the penalties would no be present. If a state either "cashed out" or reduced benefits, the number of hungry citizens would increase, resulting in increasing malnutrition, higher health care costs, etc. Presently, the Food Stamp benefits help to narrow the gap among state welfare payment levels by providing more food benefits to mothers and children who are poorer because their state pays low welfare benefits. Turning the program back to each state would lose this balancing benefit. In the 1960's, each state set their own income limits for food programs, and there was much variation, with many states setting the eligibility limit cut-offs at only about half the poverty line.

We question recent changes as being cost ineffective, such as monthly reporting for food stamps and AFDC. In a recent study by the Abt Associates of Cambridge, Mass., under contract to the U.S. Department of Agriculture and to the U.S. Department of Health and Human Services, the report submitted in mid-October revealed the following:

Payments to ineligibles were more frequent in the monthly reporting groups than in the control groups.

Monthly Reporting did not reduce aggregate overissuances.

Monthly Reporting did not lead to reduced client error.

Monthly Reporting increased "agency-caused errors".

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[1] NOTE.—The Association's request to testify orally at March 19 hearing was denied because of the already full hearing schedule. The Committee has no record of any previous request(s) to testify.

Monthly Reporting resulted in increased benefit costs of 5.5% the first six months of the study and failed to produce savings.

92% of households whose cases were closed for failure to file montly report were eligible, resulting in larger number of brief closures, lost benefits and paper-work increases.

North Carolina's findings confirm that monthly reporting is not cost effective.

North Carolina has taken significant action to effectively implement the Food Stamp Program, despite the problems created in Washington. The following recent actions are cited as examples:

1. Effective 10-1-83, a position has been established to coordinate activities associated with the detention and prevention of fraud in the AFDC and Food Stamp Programs. Technical assistance will be provided to county staff in areas of establishing and maintaining procedures for collecting overpayments and overissuances.
2. A Special Invstigation Committee made up of county investigative staff has been established to work with the Division's Coordinator for Fraud Detection and Prevention. The committee is responsible for reviewing current policy and procedures related to fraud control and for making recommendations for change, improvement, etc.
3. A Special Investigations Handbook was developed by the Special Investigation Committee for use by county investigative staffs.
4. A computer-assisted interview system to reduce errors and enhance productivity is being developed.
5. North Carolina is participating in an 8 state Match program to match computer files among the states to detect possible duplicative assistance and unreported income by matching Employment Security Commission files.
6. Training is on-going in the area of Fraud Prevention.
7. A toll-free care-line operated by the Department of Human Resources gives citizens an opportunity to phone-in suspected fraud, with follow-up and action.
8. Implementation of state-wide computer systems allowing automatic detection of duplicate participation and automatic matches with wage-earnings files.

MARCH 21, 1984, HEARING

STATEMENT OF HON. WALTER D. HUDDLESTON
A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, I am pleased that the Committee is holding this oversight hearing on the food stamp program. Within the last year, much attention has been focused upon Federal food assistance programs, including the food stamp program.

There have been recommendations for changes in the program by the President's Task Force on Food Assistance, and by the Grace Commission's panels of the Department of Agriculture, low income standards, and financial assets management. There are also various legislative proposals to amend the Food Stamp Act.

Many of these recommendations and proposals are directed at reducing such errors, fraud, and abuse in the food stamp program. Included among these are--

-- provisions for the use of social security numbers for eligibility and administrative purposes,

-- more stringent criminal penalties for fraud,

-- additional collection mechanisms for overissuances, and

-- error rate sanctions.

It is important that efforts to eliminate fraud and abuse in the food stamp program are vigorously pursued. We must ensure that the resources available under this program are fully devoted to providing adequate food for those in need. I believe that this Committee should give serious consideration to any legislative proposal which would accomplish this.

I also believe that efforts to reduce the high error rate in the issuance of food stamps should continue to be made. However, this is an area in which we must proceed with caution.

In my own state of Kentucky, the error rate for the period of April, 1983, through September, 1983, was 6.9 percent, well below the national average. However, state officials have indicated to me that it is not likely that this rate can be further reduced in the near future because of the continued high level of participation and the recent changes in the program with respect to monthly reporting and retrospective budgeting, as well as the possible enactment of further amendments to the act.

Therefore, the current sanction provisions may ultimately prove to be counterproductive by reducing the Federal share of the administrative costs to the state at a time when additional staff resources are needed to implement program changes.

I hope that today's witnesses will address the need for innovative ideas on improving the administration of the food stamp program, and I look forward to reviewing their testimony.

STATEMENT OF HON. BOB DOLE
A U.S. SENATOR FROM KANSAS

Mr. Chairman, this past year, there has been a lot of focus on hunger in America. Some have tried to link this problem with budget cuts enacted in the food stamp program during the reconciliation process of 1981 and 1982. As chairman of the nutrition subcommittee, I played a very active role in developing proposals that would reduce Federal spending while minimizing the impact of budget cuts on low-income Americans.

We were able to accomplish both of these goals with strong bipartisian support--in committee, on the Senate floor, and later in conference. As a result, we were able to reduce food stamp program expenditures by about $7 billion dollars over the three year period FY 1982-FY 1985.

Effect of Reconciliation

At this time, I do not feel that we should retreat from program changes that we have made, except to the extent that some fine-tuning may be necessary. I think that most of the changes we made in the food stamp program helped to improve the targeting of benefits to the most needy, initiated constructive program reforms, improved state administration of the program, and addressed most of the problems of fraud and abuse that had been brought to our attention through the hearing process. I believe that we should continue to scrutinize this program, and other social programs, to make certain that they are carrying out the intent of the Congress. We need to make certain that the Federal social programs are functioning efficiently and effectively, making the best use of limited fiscal resources.

Task Force Report

This past January, the President's Task Force on Food Assistance made some recommendations that would result in additional cost for the food stamp program. I think most of their recommendations should be implemented--they represent a moderate effort to address "hunger" problems that have been brought to our attention. Although the Senator from Kansas is actively involved in efforts to reduce the Federal deficit, I think there is some justification for adding to Federal expenditures in the food assistance area. Low-income and unemployed Americans are faced with serious problems on a daily basis, and we have a responsibility to provide assistance to our less fortunate citizens.

We should restore one percent to the thrifty food plan, raise the assets limits and make other adjustments in the program. However, I do not believe the optional state block grant proposal is viable at this time, because the Federal government should maintain its leadership role in the nutrition program area. Further, I do not see any reason to tamper with the current error rate sanction system, which is already bearing positive results in state administration of the program.

Real Fraud Issues

Nobody, Democrat or Republican is in favor of fraud and abuse in the food stamp program. Those who are the real victims of fraud and abuse are the recipients themselves. There are people in genuine need of food assistance who are cheated outright by those who take advantage of a program whose goals are really worthwhile. Because of the program's image, many deserving poor people are reluctant to participate in the food stamp program. The elderly feel a great sense of pride and often do not sign up for benefits, because they are not comfortable receiving what they perceive as a handout by the government.

During the past five years, the Congress has tightened up the food stamp program significantly. Extensive hearings were held during the last three years in the Senate agriculture committee, and the legislation that was enacted attempted to address all of the concerns that were raised with regard to existing fraud and abuse. Just about all of the necessary tools to go after fraud and abuse have been implemented in the law—it is now a question of utilizing them to attack the problems that remain. However, we will continue to scrutinize this program on a regular basis in the committee and subcommittee.

Impact of "Reform"

In the process of continuing our efforts to monitor the food stamp program, we must be cautious in adopting reform measures that would really result in benefit reductions for program recipients. Often, proposals are described as being "reform" measures when they would really end up causing hardship to food stamp recipients.

In the past, this Committee has very carefully reviewed proposals by considering their potential impact on the deserving people the program was intended to serve. During the budget processes of 1981 and 1982, we were very responsible in our efforts to protect low-income Americans from unnecessary hardship. At the same time, we tightened up this program in many constructive ways--both on the administrative side and the fraud and abuse side. Most of the Food Stamp Accountability Act of 1981, which I introduced along with Senator Leahy, is now law. I think the changes that we have made in the food stamp program have helped to enhance the program's image with the American public. Still, in some ways, there is progress to be made in this area.

Larger Issue of Equity

Everyone in the Congress--and certainly the American taxpayer--is extremely concious of the huge Federal deficits we are facing for the immediate future. However, as we continue to try to reduce Federal spending, we must wield the budget ax with equity. Many of the larger entitlement programs have remained relatively untouched and unscrutinized by the Congress during the budget process of the last three years. It is time we looked away from the food stamp program and addressed some larger problems in programs that do not primarily affect vulnerable, low-income Americans.

STATEMENT OF RICHARD W. STRAUSS, PROJECT MANAGER, LOW INCOME STANDARDS TASK FORCE OF THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL IN THE FEDERAL GOVERNMENT

Mr. Chairman, I am pleased to address your committee on the work of the Low Income Standards and Benefits Task Force and the Financial Asset Management Task Force of the President's Private Sector Survey on Cost Control in the Federal Government.

My name is Richard Strauss; I am Manager of Washington Operations for Stewart-Warner Corporation and was Project Manager of the Low Income Standards Task Force. With me is my associate at Stewart-Warner, Jeffery Alspaugh; Richard Kasperson, Vice President of Abbott Laboratories; and Roger Rutz, a Private Economist. Also present is James Herr, President of Herr Foods, Inc., who is here to represent the Financial Asset Management Task Force. All these individuals played key roles in the development of the PPSS recommendations.

I will defer to the testimony of Mr. J. Peter Grace, who served as Chairman of PPSS, given to this committee February 22, 1984, as it relates to the background of PPSS and what PPSS hoped to accomplish. It is my understanding, Mr. Chairman, that the purpose of this hearing is to discuss the PPSS recommendations dealing with the Food Stamp program as contained in the two Task Force reports I have previously identified: Low Income Standards and Financial Asset Management.

I would first like to discuss the recommendations of the Low Income Standards Task Force which was one of the "cross-cutting" or functional task forces and was assigned to survey needs-based programs such as Veterans Pensions, Aid to Families with Dependent Children and Medicaid, in addition to Food Stamps.

Three major findings resulted from the Task Force's analysis: two stem from the large number of needs-based programs and the other from the complexity of individual programs. Our issue on the optimal distribution of food stamp benefits concerns the latter. A number of needs-based programs, including AFDC, Supplemental Security Income, VA Pensions and Emergency Assistance, pay benefits in the form of cash. Other programs, including Medicaid, Food Stamps, and Public Housing, distribute benefits in-kind or through systems which are intended to restrict the benefits to specific uses. The use of food coupons in place of cash was intended to ensure that benefits were used for food. As this committee is aware, the intended use has not always been realized; food coupons are used to buy a multitude of non-food items. Moreover, the present food stamp system has resulted in large-scale fraud and abuse, costing the taxpayers hundreds of millions of dollars a year. The Department of Agriculture reported error rate of nearly 10 percent is an unacceptable figure from a private sector viewpoint and, for the most part, is the result of inadequate verification of applicant-supplied information. Furthermore, when food coupons are trafficked illegally, their value is discounted by as much as 90 percent. Investigating the abuses of the Food Stamp program, particularly fraud and trafficking, consumes fully one-fourth ($10 million in fiscal 1981) of the budget of the Office of Inspector General at the U. S. Department of Agriculture.

In 1982 this Committee, and later the full Senate, passed a bill which provided for a nutritional assistance block grant to the states (at the state's option). This legislation would have allowed states to choose the method of food assistance distribution. Unfortunately, the House did not go along with the idea and it was lost in conference. The Task Force supported the idea and also supported USDA's efforts through pilot programs to distribute food assistance through cash out, voucher and electronic systems which offer hope of a more efficient program.

The next issue concerns program coordination and is addressed by our Combined Welfare Administration (CWA) proposal. The multiplicity of needs-based programs has created a situation in which many agencies within numerous departments perform distinct but overlapping administrative functions. This situation has given rise to a cumbersome welfare bureaucracy at state and local levels as well as the Federal level.

The Task Force concurred with the 1980 Office of Management and Budget/interagency Eligibility Simplification Project which reported that what is lacking in the current maze of needs-based programs is an effective method for coordinating the separate parts to better meet people's basic needs. According to the OMB/interagency study:

> The cause of this situation is that the parts of the "system" have evolved in response to the categorical needs of the disadvantaged, but the design of those parts has rarely considered the system as a whole. Thus, each program is tailored to achieve a particular goal, by separate authorizing committees

> in Congress and by separate departments or agencies.... As a result, what should be a system is not.

State administrative costs for AFDC, Medicaid and Food Stamps are reimbursed on a 50 percent Federal matching basis. This open-ended method of funding reduces the incentives to keep administrative costs down. For example, in fiscal 1981 the Federal share of states' administrative costs for AFDC ranged from $20 to $126 per average monthly caseload; for Medicaid from $18 to $91 per average monthly caseload; and for Food Stamps from $9 to $94 per participant per month. The states currently receive separate funding of administrative expenses for each of the three programs.

In response to these problems, a Combined Welfare Administration proposal, which would combine Federal funding for administrative costs under a single block grant, was submitted in 1982. This proposal would streamline funding through one channel by providing coordination at the Federal level and relieving state welfare program administrators from the chore of addressing three separate Federal bureaucracies. We supported this proposal, but recommended some modifications. Whereas the 1982 CWA proposal set the Federal share of state administrative costs at 95 percent of the fiscal 1982 amount, we recommended developing a procedure to adjust the amount of the grant by the size of the anticipated caseloads for the three programs, and by recognizing cost level increases. In this way, states would not be required to take the risk of processing a significantly greater number of program recipients which may occur in the future without some adjustment in the Federal funding of state administrative costs.

As an example and basis for making a savings proposal, the maximum administrative cost levels per case which would cover 70 percent of the cases administered by all states was used. Setting such a level would encourage states that have higher administrative costs to achieve proportionally greater savings. If implemented, our recommendation could result in an estimated $291 million savings in the first year.

As with the previous subject on program coordination, the third issue on eligibility verification stems from the large number of needs-based programs. The Census Bureau reported in 1981 that over 14.5 million (17%) of the nation's 85.5 million households received one or more selected means-tested public non-cash benefits (Food Stamps, School Lunch, Public Housing and Medicaid). Of the 14.5 million households, 3.8 million (26%) received two non-cash benefits, 2 million (14%) received three, and 471,000 (3%) received all four benefits. What is income for one program may not be considered income for another. Basic data supplied and verified in one program must generally be supplied and verified again for another.

Solutions for alleviating some of the problems are contained in the recommendations of our Computer Matching issue. A review of the 1982 General Accounting Office report, entitled "Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions," and the 1980 Eligibility Simplification Project found that automated data and verification procedures had the greatest potential for reducing incorrect calculation of recipient income and assets. There are legislative restrictions, however, inhibiting the development of fully integrated automated data processing (ADP) systems. Access to certain types of income information, for example, is restricted by law. In order to remove these restrictions, we recommended the following: 1) amend the Tax Reform Act of 1976 to allow needs-based program managers to use Internal Revenue Service unearned income and Social Security Administration wage data; 2) require all states to collect quarterly wage data which would not only help in the administration of the unemployment compensation program but also help control fraud and overpayment in means-tested programs through matching procedures; and 3) require the submission of Social Security numbers and income tax returns as a condition of eligibility.

In lieu of simplifying things from the top (Federal level), some states have taken the initiative to alleviate problems associated with administering various assistance programs all with differing regulations, funding rates and channels of authority. Federal participation in financing the planning, design, development and installation of automatic data processing and information retrieval systems will hopefully encourage more states to automate their welfare systems. In addition to profiling and matching with other data banks, verification of applicant information is eased with an automated system. All these capabilities enable public assistance programs to benefit those whose needs are greatest and eliminate frauds and abusers.

Assuming a fully integrated automated system with access to pertinent IRS and SSA data, we made a conservative estimate of net savings of $614 million in the first year based on the highest cost per match sample and a 25 percent reduction in erroneous payments.

We have had the opportunity to review your proposed bill, Mr. Chairman, titled "Income Verification Improvements Act of 1984," and are pleased to note it implements a number of our Task Force recommendations relative to verification procedures. We will be pleased to assist in any way we can to help in the passage of such a badly needed piece of legislation.

Now, Mr. Chairman, I would like to turn my attention to a discussion of the Financial Asset Management Task Force's recommendation of the possible use of food stamp coupons for the purchase of surplus dairy products. As you know, the USDA uses the Commodity Credit Corporation (CCC) to help maintain commodity prices at desired levels. CCC makes available loans to farmers to finance their crops, then withholds these crops from current or future market pricing activities. If prices do not rise to the desired level, the Government purchases the goods outright and assumes the remaining financing and storage costs. The result is that the Government owns commodities it bought at prices above market price, with any sales forcing prices further downwards. As a result, the CCC has a substantial inventory of both purchases and repossessed "takeover" commodities.

There are no CCC support programs for processed products other than dairy products. Most commodities (wheat, corn, etc.) are stored in raw bulk form and require considerable processing before human consumption.

The Financial Asset Management Task Force recommended that a designated percentage of food stamp coupons be marked for the specific purchase of dairy products of the type purchased by the CCC (cheese, non-fat dried milk and/or butter). The percent so marked should be adjusted periodically to reflect market conditions as they relate to dairy support prices. An eight (8) percent increase in purchases by food stamp users could amount to an estimated $850,000,000 increase in the consumption of dairy products, making possible increases in prices above the support level that might reduce annual dairy purchases by the CCC.

On behalf of the two Task Forces, I appreciate the opportunity to testify, and we will be happy to answer any questions you may have.

STATEMENT OF

Ellen J. Chestnutt
Chief Deputy District Attorney
Colorado Springs, Colorado

President: National Welfare Fraud Association

President: Colorado Welfare Fraud Council

Co-Chairman: (Colorado) Governor's Task Force on Welfare Fraud

Mr. Chairman, Members of the Committee:

I am Ellen J. Chestnutt, President of the National Welfare Fraud Association, Co-Chairman of the (Colorado) Governor's Task Force on Welfare Fraud, President of the Colorado Welfare Fraud Council, and Chief Deputy District Attorney in Colorado Springs, Colorado.

First, I wish to thank you for the opportunity to present this testimony. As one who has been involved in the welfare fraud field for many years, it is encouraging to see legislation that helps keep down chances for abuse of the food stamp program.

Welfare fraud is an area that has been a step-child for too long. Some welfare departments often give it low priority; they are often understaffed and can barely keep up with providing services; also, their training is generally not in law enforcement. Prosecutors have not generally given welfare fraud a high priority either as they do not handle that many welfare fraud cases. Crimes of violence have increased faster than their staffs; consequently, welfare fraud takes the back burner. Few prosecutors have expertise in the area of food stamp fraud, and there has been a lack of enthusiasm from many of the departments. As costs skyrocket and as budgets tighten, the fraud area is being looked at with much closer scrutiny, both from the view of fraud and abuse within the program and also from the law enforcement view. So, it is with great hope that many of us in the field view the provisions of this legislation.

My comments will be concerned only with portions of the bills dealing with fraud in the program - its detection, investigation, prosecution and, of course, fraud prevention. Though effectiveness in fraud programs is generally measured by actual dollars recovered in restitution, the greatest value is in fraud prevention. It costs more to get someone off the food stamp program than it does to keep someone off. It is also in the best interest of society to prevent someone from becoming a criminal rather than to convict someone of a crime; however, there will always be cheaters, and by not convicting any, we encourage more to cheat. In a strong law enforcement program, the conviction of some will deter others.

Comment on Provision in S. 1993 and S. 1727

I. Photo identification and countersigning the food stamps would be a big step forward for fraud prevention. The photo identification was one of the first projects urged by the National Welfare Fraud Association in its earlier years. A few years ago it was introduced in a Fraud Reform Bill in Colorado; it was rejected with violent opposition. It would save a lot of time and effort if individual states have it made mandatory at the federal level. In addition, then, merchants should be required to have the photo identification shown when taking food stamps and have the identification number written on the food stamps; failure to do so should mean the stores would not get their reimbursement (just as in many stores, clerks who do not take down two identification numbers on cashing checks must make good those checks out of their own pocket if they are returned for nonsufficient funds).

We concur with setting food stamp purchases in even-dollar amounts and no change being given. This will prevent misuse of food stamp money.

II. IRS Tax Intercept for Fraud Restitution. This is a fine method of collecting. It is working fine in many states on state intercept, and it was the biggest boom to the child support collections there was. If money is owed to the government and the government is about to pay some back to a defendant, it is most reasonable to withhold until that debt is paid.

III. Cross Matching with Dividend and Income Information. Computer matches can be most fruitful and very time-saving. In years past, our county experimented with a variety of computer matches. A motor vehicle match was done using the address of the recipient and matching with the address of the motor vehicle owner. Unreported assets were discovered, as well as absent parents in the child support program (the record was one recipient having seven cars). A school match was done, also by address, with the recipient children and the school district records. Initially, 300 children were discovered missing from the school records (private and parochial students had to be checked manually). Our court registry fund (for child support payments) was matched against recipients for unreported child support payments. The computer matched child support payees with the recipient list and discovered unreported child support payments.

The wage match with the recipient list should be the most productive of all computer matches. The one presently being done by our state is ineffectual because it is matching the wages earned of one time period (two quarters back) with the current food stamp recipient list. The match needs to be done for the same time period. Mixing the two time periods make it ineffectual, and certainly is not making full use of the computer.

IV. Fraud Detection Offices. Some provision needs to be made to insure that all the tools being provided are, in fact, used. Staff shortages seem to be taken out of fraud investigators first. This may be because most department directors are social service oriented and not law enforcement oriented.

There are some district attorneys' offices who have not had a food stamp fraud referral in years. In our county, a wage match was done last October; it has been sitting unworked since it came. The federal funding would obtain more results if it were available directly to the local agencies who are willing to, and in fact do, the fraud investigations and prosecutions. Local offices can not get this help if it is bogged down at the state level. The funding now available does not encourage some state offices to be interested in spending time to provide this at the local level. Some offices mistakenly feel that the discovery of fraud in their departments is a reflection on them. It is not uncommon for some offices to feel all such matters should be handled administratively as overissuance, and not referred to the prosecutor as a fraud case. It is in the interest of all of us to reduce fraud, error and waste in administrating the program. It should be clarified that there is a distinction between "error" and "fraud". Both can occur in the same case, and while "error" may weaken your "fraud" case, it will not wipe it out. It can be a temptation to "overlook" the fraud in order not to have the agency error disclosed.

V. Verification. The better the verification at intake, the better the fraud prevention. A little more time at intake can save a lot in money and time later. Making better use of informaion on the computers could save a lot of money. In our county, our District Attorney fraud investigators and the Department of Social Services intake eligibility workers must mail a form to Denver to verify wage information (and then wait for an answer by mail), while this information is on-line on the computer in a building across the street!

VI. Adult Responsibility. It is an excellent requirement to have all adults sign the necessary forms. It just means another loophole closed. One pattern of cheating is for one spouse to apply and sign the forms, while the other spouse is one who is working. The non-working spouse states, "I didn't know my spouse was going to work," and the working spouse says, "I didn't know I was supposed to report." It is also important to require the forms be under oath.

VII. Expedited Service. This is one of the biggest areas of fraud; one reason being that no verification is done. This reinforces the value of a thorough verification at intake. It would be an improvement to make it optional with the state; they can best know the necessity for it or the options recipients have without it. The fraud will continue in this area, especially when there is very little enforcement of the fraud that is found.

Additional Suggestions

I. Require all forms be signed under oath, under penalty of perjury. Information provided to the department which will be relied upon for determining eligibility should be provided under penalty of perjury. In some borderline cases, fraud will be prevented; in some cases, "careless" recipients will be more accurate; for those recipients who deliberately misrepresent, the prosecutor will have an additional tool. There would be no cost involved in implementing this. Although there is a substantial expense in having an employee become a notary public, it is possible to authorize the agency director to designate certain employees as authorized to take oaths.

II. Require the reporting of suspected fraud cases to law enforcement officials. It is provided that cases handled in Administrative Fraud Hearings may also be prosecuted in the courts. Unless they are reported to the prosecutor, they will never get there. Suspected fraud cases discovered by Quality Control should also be required to be reported to law enforcement officials. Many suspected fraud cases are just handled as overissuance cases without ever being investigated for fraud. It appears there can be a temptation to handle most cases as departmental recoupment rather than fraud prosecution, for the incidence of fraud in a program will appear very low if there are never any fraud cases referred for prosecution. The philosophy that the discovery of fraud in a program is an indication of poor administration needs to be corrected. Since fraud exists in every program to some degree, it is vital to realize that only by detecting, investigating and prosecuting when appropriate can a good fraud prevention program become a reality.

III. Allow the federal funding and incentative money to go directly to the local agency doing the work. A direct route for both would increase capabilities and provide the incentive that was intended. Those states that are not state-operated can dampen (if not extinguish) the fraud detection/prevention program by a lack of enthusiasm and lack of cooperation.

IV. Encourage more efforts in collecting fraud restitution, and provide more tools with which to do it, in addition to IRS tax intercept. Fraud defendants are not any different than other criminal defendants: some can pay and some cannot. The attitude that all fraud defendants are poor people and do not have the ability to repay needs to be changed. With proper tools, much time and effort can be saved and make the effort even more cost effective than it is. Too often fraud defendants "fall through the cracks" somewhere between the courts, the probation departments, the prosecutors, and the departments of social services. An example is a recent case in our county where a welfare fraud defendant had quit paying monthly restitution payments, had moved away and had not reported to the probation worker. The Probation Department felt she wasn't worth attempting to locate since she was "just a welfare fraud defendant" and probably couldn't pay anyway. It turned out she had moved to Denver, was employed by the State Department of Social Services and had recently received a nice raise. Needless to say, when she was cited back into court, she paid the balance of the restitution in full!

Provide use of IRS information to check ability to pay restitution, as well as having computer access to state wage information.

V. Provide interstate computer matches of recipients. This was recommended by the National Welfare Fraud Association in its first few years of existence. It was done at one time as an AFDC match and proved successful. When discrepancies are discovered, refer them to law enforcement officials - don't just attempt repayment. Also, when states discover multiple applications, don't stop at just denying the application - refer it for attempted food stamp fraud.

VI. Do not allow state regulations to require recipient's permission in order to check inconsistent information from a contact. Recipients sign a waiver, or release, for checking their assets, etc., to verify eligibility. It should not be required to also notify the recipient and get permission before using the release.

VII. Do not allow fraudulent recipients to benefit from their fraud by having their food stamp bonus increased when their AFDC grant is reduced to repay fraud restitution. If a welfare fraud defendant, who is still on public assistance, is repaying fraud restitution by having a monthly amount deducted from her AFDC grant, her food stamp bonus increased proportionally since her "income" from AFDC is lowered. So the fraudulent defendant who is supposed to "tighten her belt" by having some money withheld from her AFDC grant to repay the fraud just gets more in food stamps as her AFDC grant is lowered. So it really isn't repaying, but just shifting where the money is coming from.

VIII. On the food stamp application, the recipient has to sign that she has read the AGREEMENT AND UNDERSTANDING; in addition, have the eligibility worker read it to her and then she also should sign the form as having read it to the recipient. So, the recipient signs a Statement of Responsibility which says: "I have read this, and I have had it read to me by _____." One of the common "excuses" in a fraud case for not reporting income or change of circumstances is "I didn't know I had to do that," and then adding that she signed "all those forms without reading them." Most jurors are willing to believe that recipients would sign the many papers without reading them. When we started using a "Statement of Responsibility Form" which required the eligibility worker to read it to the recipient and then for them both to sign it, we not only knew that the recipient had been advised, we had the name of the witness who had advised her, and we had the recipients signature that it had been done. It aided greatly in obtaining guilty pleas!

IX. Add "Place of Birth" to the application. This would aid in fraud investigations and on checking alien status. If a person is an illegal alien and lists a U.S. birthplace, it helps the prosecutor to show intent to deceive, and also provides an additional charge which is an easier one to prove.

X. Allow, or require, the Food Stamp Office to release a recipient's address to law enforcement officials when they have a felony warrant for arrest of the recipient. It is in the interest of justice that one arm of the government cooperate with other arms in the matter of law enforcement. It certainly is not appropriate in a country we attempt to have law-abiding, to allow an office of this government to conceal the whereabouts of one alleged to have violated the laws of that government. Probable cause that the recipient had committed the alleged crime had to be found before the arrest warrant was issued.

It is contrary to all sense of law and order for a person wanted on a felony arrest warrant to be allowed to be "concealed" in a government program.

Conclusion

Provisions for better fraud prevention are important not only for the taxpayers who are paying the price, but also for the recipient so that the limited funds can be used for the truly needy and not for the greedy. Welfare fraud enforcement is cost effective: in restitution, in cost avoidance, and certainly in accounting to the public for the operation of this government program.

I want to thank the Chairman and the Committee for this opportunity to testify.

STATEMENT OF VIRGINIA DICKINSON GILES-MUSTAIN, MEMBER, BOARD OF DIRECTORS, NATIONAL ELIGIBILITY WORKERS ASSOCIATION

Mr. Chairman, Members of the Committee, on behalf of the Board of Directors of The National Eligibility Workers Association, I would like to thank you for the opportunity to present our views on the Administration's FY'85 proposals for the Food Stamp Program.

I am an Eligibility Worker employed by the Prince William County Department of Social Services in the State of Virginia. I am also a member of the Board of Directors of The National Eligibility Workers Association (NEW), on whose behalf I am testifying here today.

The National Eligibility Workers Association was founded in 1975 in Norfolk, Virginia to improve the knowledge, skills and overall professionalism of Eligibility Practitioners. As of this date, our association has approximately one thousand (1,000) members from twenty nine (29) States, with twenty five (25) Local and three (3) State chapters and ten (10) Agency memberships. Our members are employed by Local and State Departments of Social Services as eligibility line workers, supervisors, trainers, quality control specialists, program co-ordinators, policy analysts, policy writers, agency directors and state commissioners. The official positions of the association are made by the Board of Directors who are elected from and by the general membership. To formulate its positions the Board of Directors utilizes expert information and knowledge provided by members of the association. In testifying today, our association hopes to provide you with some information that will spur all of us to seek solutions to the basic problems encountered in dealing with human service needs during a time of restrictive budgets.

Despite repeated explanations that the vast majority of human service program expenditures go to the very young, the very old and the disabled, a segment of our population continues to believe that the majority of citizens receiving these benefits are either undeserving or able-bodied. Entrenched in this belief they remain in accord with the current administration's economic scenario. A scenario that goes something like this: Congress should continue to put into place a plan of budget cuts, tax reductions, monetary restraints, deregulations and so forth. As a result, inflation will gradually continue to abate; the budget will come into balance; interest rates will fall; the economy will pick up; employment will rise; and savings mount. Government funds, of course, will be severly reduced, forcing those of us in the human service field to curtail services to the poor, the elderly, the disabled, the children, etc. However, we are told, we should not consider this a serious problem because the economy will improve, higher employment will take up the slack and private philanthropy will increase and therefore the government assistance for social programs will no longer be required.

The new assumption is not that the defects in the poor are necessarily the cause for their impoverishment but that excessive and inflationary funding of social programs is to blame. This scenario further assumes that if you feed the corporations well, they will in turn be better able to feed the people, thereby either eliminating or reducing the need for food stamps.

In the last several years, it has been the economist and not the human service practitioner, whose voice was heard and listened to when fiscal budgets were determined. As a result the poor and the vulerable in America are no longer categorized as a social indicator, but as an economic statistic which falls on the cost side of the equation. The goal is to reduce that cost to the maximum, while building up the supply side of the economy. The poor once again become invisible to society because they are being dealt with as statistical abstractions, not as flesh and blood human beings.

The need for social service programs; financial assistance, food stamps, for help in righting one's life does not seem to be diminishing. Because less money is now being provided to pay for services to people in need, it does not mean that there are fewer people who need help. As front line workers, what we are trying to impress upon you is: A need for the Food Stamp Program already exists. This need is not going to go away and we can see no trends toward a decrease in Program participation.

The basic purpose of the Food Stamp Program has been to provide a nutritionally adequate diet for the poor, the elderly and the disabled. If further cuts are made, the potential certainly exists that some of the population will have less than adequate diets, and the long-range impact could be to increase health costs under medicaid and other health programs for the needy. A further reduction in benefits would even further hinder the poors ability to maintain an already inadequate standard of subsistence.

In preparing our testimony, the Board of Directors, requested from our members their perspective of the Food Stamp Program and USDA's proposal for FY'85. We received the usual litany regarding change after change, interim rules, interim final rules, final final rules, re-programming, re-training, re-clarifying, etc. The overwhelming response was that the current Food Stamp policy is the most complex and confusing policy of any of the programs they administer. Despite or because of this, the majority of our members expressed the belief that to insure the integrity of the program a modicum of change is essential.

*ERROR RATE SANCTION

I would like to begin our specific comments on USDA's FY'85 Food Stamp Budget proposals by discussing the error rate sanction proposal that would require States to pay the dollar value of erroneously issued benefits exceeding three percent (3%). We are all keenly aware that error rates are extremely high in the Food Stamp Program. The fiscal sanctions that will be applied based on error rate are of utmost concern to both state and local administrators because of already strained budgets, reduced staff and increased caseloads resulting from a depressed national economy. The fiscal sanctions are of primary concern to line workers since ultimately they are held accountable for their respective agencies error rates.

NEW does not go along with the contention of some officials that the proposed error rate system would serve as an incentive for states to improve program administration and reduce errors. It is our contention that certain errors will only be reduced when the policy is simplified and "built-in-errors" are removed. Based on this contention NEW supported the spirit of USDA's FY'84 proposal which we believed was the first sensible attempt at simplifying the eligibility determination process. We found merit in the desired end result of reducing errors and administrative costs. However, while agreeing with the spirit we had some reservations in regard to the path they were suggesting we follow to achieve the goal.

Our membership has identified sections of current policy as areas that are error prone due to complexity as well as ambiguity:

1. HOUSEHOLD DEFINITION

Last years proposal by USDA would have mandated that all persons living at the same address - except elderly individuals who purchase and prepare food separately or persons who would otherwise be disqualified by the actions of others - be considered as one household. From the line workers perspective the intent of this provision would simplify the determination of eligibility thus reducing errors. For this reason alone, we supported the Household Definition provision. However, we were concerned about the impact this proposal would have on current and future recipients. Based on our current caseloads, we have found that a growing number of our recipients are moving in with others because of a lack of low cost housing and their inability to afford to live on their own. In the spirit of simplifying the program for error reduction while maintaining adequate benefit levels, we suggest that the Household Definition be adopted and that a provision be issued to increase benefit levels to accomodate recipients who are forced through no fault of their own, to live together.

2. EXPEDITED SERVICES

The limited time required for a State agency to make a determination of a household's eligibility for expedited benefits impedes the ability of the agency to verify important information before making its decision. Under current law, benefits must be issued within five (5) days-regardless of whether the eligibility worker has been able to verify any of the information submitted by the recipient. The mandatory requirement and the short turnaround time makes overissuance errors probable. Based on 1982 GAO statistics that thirty one (31) States processed their regular cases within fifteen (15) days, and that all remaining States met the thirty (30) day processing time required by the Food Stamp Program, our membership suggests that expedited services should no longer be a mandated requirement but rather a State option. We further suggest that even when optional, verification of income and resources should be mandatory.

3. INCOME ELIGIBILITY DETERMINATION

In their FY'84 budget USDA proposed replacing the eighteen percent (18%) disregard with a flat work expense deduction of $75.00 a month for households with full-time workers and a smaller amount for those with only part-time workers. Acknowledging that a percentage disregard is more responsive to recipients' needs, line workers never-the-less, expressed support of USDA's proposal. The majority of line workers manually calculate eligibility without the assistance of computers or calculators and consequently it is their professional opinion that using a flat dollar amount rather than a percentage disregard is the only change that will effectively reduce errors. If USDA's FY'84 proposal is adopted we suggest that Congress re-evaluate the dollar amount used in both AFDC and Food Stamps on an annual basis to adjust for inflation in the costs of working as well as the higher expenses associated with increased work hours and higher earnings.

To further simplify the determination process USDA proposed in FY'84 that the current standard and shelter cost deductions be replaced with one standard/shelter deduction for all households. NEW believes this provision is essential for error reduction. However, we had reservations about USDA's proposal of a standard deduction figure of $140.00. This figure would adversely effect recipients in the Midwestern and Northeastern states where shelter costs are higher owing to fuel prices and the cost-of-living in general. In our judgment, it would simply be unfair to require equal treatment of people and regions in unequal circumstances, as called for by the proposal. We suggest that the proposal be adopted but that the dollar amount of the standard deduction be re-evaluated regionally based on median shelter costs.

NEW strongly opposses the three percent (3%) sanction at this time and proposes that it be postponed until such time as the program is purged of "built-in-errors" which result from the extremely complex policies governing food stamp benefit determination. The three percent (3%) desired error rate is unachievable under the outrageous intricacies of current regulations. We are confident that errors will decrease under the current error rate sanction policy, which requires States to achieve a five percent (5%) error rate by FY'85, if the proposals and modifications we've discussed today are adopted.

*CATEGORICAL ELIGIBILITY

USDA's proposal providing for automatic eligibility for households that are eligible for AFDC benefits is seen by caseworkers as a means to simplify benefit determination. Lower AFDC error rates are indicative that more parallelism of AFDC and Food Stamp Regulations could reduce Food Stamp errors. For this reason we support this provision.

*MANDATE WORKFARE

As a condition of eligibility, the administration proposes, as it did last year, that all able-bodied recipients be required to perform public service jobs. In exchange for program benefits, recipients would be mandated to work in community work experience programs (CWEP) established by the State. Currently, States have the option to establish Workfare programs as well as other work activities such as Job Search. NEW believes that Congress should continue to allow States the flexibility of establishing work programs which will address both the needs and economic circumstances of their welfare recipients. Mandatory Workfare may work in one State and have a devastating effect in another. Until we know more about the cost of operating Workfare and the value of the work experience gained by participants, we feel Workfare should remain an option to the States.

In the last two (2) years Eligibility Workers have been as confused as our recipients in regards to the direction of the Food Stamp Program. The line workers who must implement the program have found themselves in a quandry. Our predicament is that Congress appears to be sending us double messages. We are being asked to administer an error free program while remaining responsive to our clients. The dilemma is that these two positions are not compatible. A program which is designed to be responsive to basic human needs will never be totally error free as long as those seeking assistance and those rendering the assistance are themselves human beings. For no human being is capable of perfection and that is the essential requirement for an error free program. If those individuals who write policy and those who implement the policy can mutually agree that the function of a human service program is to be responsive to the needs of the client in as error free a manner as humanly possible then our cooperative efforts should result in financial savings that won't adversely effect either the program or those it is intended to help.

Our members feel the integrity of the program will be preserved if Congress can simplify the Food Stamp Program without reducing benefits. If this is accomplished we will be able to increase our responsiveness to our clients and maintain an acceptable error rate. The key, however, is simplification of the Program to the point that States can reasonably be expected to be accountable for their errors. Until that time, we believe that the fiscal burdens should be borne by those most responsible for high error rates - the Federal Government with its barrage of complicated regulations. We have no objection to being held accountable for the quality of work we produce. However, if you want high quality results you will have to give us a high quality program to administer.

On behalf of the Board of Directors of The National Eligibility Workers Association, I would like to thank you for the opportunity to share our thoughts with you. We hope that our testimony will help you pass sensible legislation that we can implement with a modicum of errors.

That concludes my testimony, Mr. Chairman. I will be pleased to answer any questions you may have.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR
CENTER ON BUDGET AND POLICY PRIORITIES

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to appear before you today. I am Robert Greenstein, director of the Center on Budget and Policy Priorities, a non-profit organization that conducts research and analysis on various issues relating to the federal budget and federal policies affecting low income persons. In 1979 and 1980, I served as Administrator of the Food and Nutrition Service at USDA.

I would like to focus today on two sets of proposals regarding the food stamp program: 1) S. 1727, introduced by Senator McClure, and 2) the recommendations of the Agriculture panel of the Grace Commission (which were presented to you at a hearing in February).

In the case of S. 1727, the sponsors of the bill have stated that its principal goal is to reduce error and fraud. Similarly, the Grace Commission has said that its principal aim is to achieve management improvements and administrative efficiencies. The reduction of error and increases in efficiency are goals we all support. However, close examination shows that the principal effect of both of these proposals would not be to reduce errors or improve management, but rather to make deep reductions in basic food stamp benefits for millions of our nation's poorest families and elderly persons.

S. 1727

S. 1727 contains one of the most severe packages of benefit cuts ever put together in a single piece of legislation. This is borne out by preliminary CBO estimates, which show that this bill would cut benfits by more than $20 billion over the next five years. S. 1727 would reduce food stamp benefits through a series of provisions, including:

- Freezing benefit levels at the June 1982 cost of the thrifty food plan. Under this provision, food stamp benefits would fail to keep pace with the current cost of the thrifty plan and would fall further behind the cost of the thrifty plan with each passing year. If food prices rose 5% a year, for example, then food stamp benefits would, after five years, equal only 75% of the thrifty plan. The President's own Task Force on Food Assistance stated that there was no basis for setting benefits any lower than 100% of the cost of the thrifty plan. This proposal would reduce the food purchasing power of every household on the program.

- o Cutting the food stamp standard deduction by one-third, to $60 a month, a change which would cut food stamp benefits by over $100 a year for nearly all food stamp households, including the poorest of the poor.

- o Reducing the food stamp shelter deduction to its level as of January 1981 and freezing the deduction permanently at this level despite continued increases in the fuel bills that low income families and elderly persons must pay.

These three changes alone would (according to preliminary CBO estimates) reduce food stamp benefits by more than $11 billion over the next five years -- $11 billion in cuts that have nothing to do with reduced error or improved administration. The changes here are all in basic benefit levels.

Numerous other provisions in the bill would have the same effect. For example, the bill would also:

- o eliminate the food stamp "minimum benefit" for the elderly and disabled. The combined effect of this provision and the provisions described above would be to terminate food stamps entirely for several hundred thousand low income elderly and disabled households, including some elderly and disabled persons living alone with incomes as low as 76% of the poverty line. By the end of the decade, some elderly and disabled persons with incomes as low as 60% of the poverty line would be terminated.

- o Counting low income energy assistance as income and reducing food stamp benefits for all households receiving this assistance, about 40% of whom are elderly and disabled.

- o Restoring the food stamp purchase requirement except for the elderly and disabled. When a similar provision was proposed in 1981, the Congressional Budget Office estimated that it would lead 800,000-900,000 households to drop out of the food stamp program (because of difficulties they would face in coming up with the lump sums of cash to purchase their food stamps). USDA studies show that when the purchase requirement was eliminated in the late 1970's, the largest increase in participation was in rural areas. The majority of those forced out of the program if the purchase requirement is restored are likely to be rural poor households.

- o Eliminating all households (except the elderly and disabled) with gross incomes between 100% and 130% of poverty, which would mean that a 58-year-old widow living alone on $4,900 a year would be terminated as well as a working mother with a young child earning $6,600 a year. Many low income working families whose gross incomes slightly exceed the poverty line but whose take-home pay falls below the poverty line would likewise be cut off and lose all their food stamps. More than one-fourth of the working poor families now receiving food stamps would be terminated.

Overall impacts of S. 1727

These seven provisions would cut food stamp benefits about $2.7 billion in FY 1985, rising to $5.25 billion in FY 1988 and totalling (as noted above) more than $20 billion over the next five years.

These cuts would be across-the-board. Every food stamp household in the country, including the poorest of the poor and all of the elderly and disabled, would have its benefits cut.

Several million persons would be terminated and lose all benefits, including several hundred thousand elderly households. As noted, some elderly persons living alone with incomes as low as $307 a month (or 76% of the poverty line) would be cut off.

In addition, the benefit cuts would grow sharper with each passing year. By FY 1988, for example, every household of four on the program -- including the poorest -- would either be terminated or lose at least $820 a year in food stamps.

Most of these provisions have, in one form or another, been considered and rejected by this Committee in recent years. The following chart summarizes some of the impacts of these seven provisions.

MAJOR BENEFIT CUTS IN THE BILL

	Provision	Who is Affected?	Size of Cut
1.	Freeze benefits at June 1982 food prices	All households	$8-9 billion over five years; by 1988, all families of four, including the poorest, lose at least $820/year in food stamps*
2.	Freeze deductions at September 1980 CPI levels	Nearly all households	
3.	Cut standard deduction to $60 a month	Over 90% of households	$770 million a year
4.	Cut benefits for all households receiving energy assistance	Hundreds of thousands of households	$175 million a year

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*Estimate of $820 a year less in FY 1988 based on CBO's projections as of last August (when S. 1727 was introduced) for cost of thrifty food plan and level of deductions in FY 1988.

5.	Eliminate minimum benefit	Several hundred thousand households terminated; 70% of these are elderly or disabled	$60 million a year
6.	Restore purchase requirement except for elderly and disabled	800,000 - 900,000 households, a majority of whom are in rural areas, will be forced out of the program	$1 billion a year
7.	Eliminate non-elderly and disabled households between 100% and 130% of poverty	Several hundred thousand households	$370 million a year

Other provisions of S. 1727

In addition to these provisions, numerous other provisions of the bill would result in further benefit cuts for many needy households. These include:

- cutting benefits for elderly and disabled persons receiving retroactive lump sum Social Security and SSI payments as well as for working poor families receiving a tax refund; an identical provision was considered and rejected by this Committee in 1982.
- changing the food stamp "household definition" in a way that would terminate or reduce benefits for about 100,000 low income families.
- authorizing states to remove thousands of unemployed families and elderly persons from the program by lowering food stamp assets limits. The President's Task Force specifically recommended raising the food stamp assets limit from $1,500 to $2,250 (for the non-elderly) in order to provide assistance to needy unemployed families currently left out of the program. However, S. 1727 would allow states to lower the assets limit instead from $1,500 to $1,000 (the level used in AFDC) for the unemployed and all other non-elderly or disabled households. In addition, S. 1727 would authorize states to apply the SSI assets limit to all elderly and disabled persons, so that an elderly couple that lives in poverty but is just over the SSI assets limit, and who may now receive Social Security and food stamps, could have their food stamp benefits terminated. A similar provision was considered by the Committee in 1982 and was rejected.

These three provisions would result in more than $500 million in additional benefit cuts between now and 1989.

"Administrative" provisions

Finally, a number of the provisions in this bill that deal with non-benefit issues are also ill-advised. These provisions would substantially increase administrative costs and would not be cost-effective.

For example, current law requires the use of photo-ID cards in the food stamp program in all areas in which the Secretary, in consultation with the Inspector General, finds this would be cost-effective and "would be useful to protect the program's integrity." S. 1727 repeals this provision and replaces it with a blanket requirement that photo-ID's be used in all areas, including those in which USDA has essentially determined that they would not be cost-effective. I would note that S. 1993 contains a similar provision.

In addition, S. 1727 requires that all food stamp coupons be signed when the household receives them and counter-signed when handed in at the grocery store. Such a provision would cost the taxpayers millions. First, use of mail issuance of food stamps in rural areas would have to end, despite the fact that mail issuance has been proven to save millions in administrative costs. (Mail issuance would end because stamps would have to be picked up in person so they could be individually signed in the presence of an issuing agent). Second, the amount that banks and post offices charge to issue food stamps would at least double because the time required for each transaction would more than double if stamps have to be signed like traveller's checks when they are issued. The increased administrative costs would be very substantial.

It should be noted that the countersigning idea is not new. At the urging of several members of Congress, USDA considered pilot-testing it in 1975. The pilot test idea was dropped when not a single jurisdiction in the U.S. would agree to participate in such a pilot. (In addition, nearly every state in the nation signed a joint letter to Congress in 1975 warning that requiring countersignatures would be an exceedingly unwise idea that would harm food stamp administration.)

GRACE COMMISSION RECOMMENDATIONS

I would also like to discuss the food stamp recommendations of the Grace Commission. The Commission's supposed emphasis was on achieving savings through improved management and enhanced efficiency. However, virtually all of the food stamp savings recommended by the Commission's Agriculture panel (which testified before this Committee last month) would be achieved through major benefit cuts affecting nearly all food stamp households, and not through administrative efficiencies.

By the Commission's own estimate, its recommendations would result in $6.7 billion in new food stamp benefit cuts over the next three years. These cuts would be on top of the $6 billion in food stamp cuts (for the next three years) that were enacted in 1981 and 1982 and would approximately double the size of the food stamp cuts enacted to date under the current Administration.

Moreover, the Commission's own estimates show that only 0.4% of the food stamp cuts recommended by its Agriculture panel would come from reduced administrative costs. 99.6% of the savings are from benefit reductions, instead. These reductions would lower the benefits of nearly all food stamp households.

Impacts on Low Income Households

The Grace Commission recommendations include four principal benefit reduction proposals:

- To change the basic food stamp benefit formula in a way that reduces food stamp allotments for all households
- To alter the food stamp "economy of scale" factors in a way that cuts benefits for most households
- To eliminate the food stamp minimum benefit, which would result in the termination of many elderly and disabled households from the program
- To cut food stamp benefits for families with children eligible for school lunches or other child nutrition programs

I will return to a discussion of these four proposals in just a minute. First, however, I would like to share with you some estimates of the impact of these proposals that are drawn from the Grace Commission's own materials. Based on the Commission's own data, its proposals would have the following effects:

- Over 96% of all food stamp households -- including the poorest households in the program and nearly all of the elderly and disabled receiving stamps -- would have their food stamp benefits cut.
- More than 7 million households would suffer benefit losses.

The Grace data, when examined in conjunction with official USDA data, also show the following effects:

- Among those hardest hit would be the elderly and disabled. Between one-fourth and one-third of all food stamp households with one or more elderly persons would be terminated and have all their stamps cut off. Many of these are elderly women living alone.
- Some elderly persons with incomes as low as 67% of the poverty line would be terminated.
- Most remaining elderly households would lose between $132 and $192 in stamps each year.
- Many households consist of a mother and two children. All households consisting of a mother and two schoolchildren would lose $375 a year in stamps, regardless of how poor they are.*

The proposals to change the food stamp benefit standards

Currently, food stamp benefits are tied to the cost of USDA's thrifty food plan for a family of four consisting of a man and woman aged 20-50 and two children aged 6-8 and 9-11. The cost of the thrifty plan for this family determines the food stamp benefit for a family of four with no income. Economy-of-scale factors are used to determine the benefit standard for households of other sizes.

The Grace Report would change these formulas. Specifically, the Grace Report criticizes the use of the four-person family described above to set the basic food stamp standard. Some Grace Commission spokespersons have contended that the average food stamp household now consists of about three persons and that use of the old 4-person standard is improper.

This argument is rather transparent. The fact that the average food stamp household size is closer to three than to four is not relevant because economy-of-scale factors are used to lower the benefit for 3-person households so that they receive less than 4-person households do. Moreover, the Grace Report's own recommendations call for maintaining use of a 4-person household to set the basic benefit standard. The Grace report does not abandon use of a 4-person benefit standard. What it does recommend is that the particular 4-person standard now in use be altered in such a way that benefits for all households of all household sizes would be reduced. The Commission estimated this change at a $1 billion a year across-the-board benefit cut. CBO has estimated it as a $500 million a year benefit cut. In either case, the reductions are large and would cause hardships for large numbers of those who are poor.

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*These estimates are based on Grace Commission data. Under CBO reestimates, the impacts would differ somewhat, but not a great deal. For example, 85% of all households would lose benefits, rather than 96%.

Not content to stop here, the Grace panel also called for altering the economy-of-scale factors used in determining benefit levels for households larger or smaller than four. This recommendation results in another quarter billion dollars a year in benefit cuts and reduces benefits for nearly every elderly household in the program.

In addition, the Grace Commission recommended dropping the $10 minimum benefit for 1- and 2-person households. USDA data show that 70% of those terminated would be elderly or disabled households and that some 300,000 elderly households would be thrown off the program. I would note that the combined effect of this proposal and the other Grace food stamp proposals would be to terminate some elderly persons living alone with incomes as low as $273 a month, or 67% of the poverty line, and that in some states most SSI recipients would lose all their stamps.

Finally, regarding the proposal to cut food stamp benefits for families with children receiving school lunches, I would note that when a similar proposal was offered in 1981, USDA's own data showed that it would result in benefit cuts for 43% of all food stamp families with gross incomes below half of the poverty line. This Committee rejected that proposal by a 14-3 vote in 1981.

Conclusion

I think this discussion illustrates the critical importance of carefully scrutinizing all food stamp proposals that come before this Committee, including proposals that purport to have error reduction or management improvement as their principal goal. We live in a period when images, one-liners, and packaging are used to sell products in all walks of American life. In the food stamp program, proposals described as benefit cuts are no longer easy to sell. Increasingly, these proposals are being characterized and presented in other terms. In the end, however, proposals such as those I have discussed today would have a profound impact on millions of poor Americans across the country.

STATEMENT OF ARCHBISHOP JOHN J. O'CONNOR, CHAIRMAN, COMMITTEE ON SOCIAL DEVELOPMENT & WORLD PEACE, UNITED STATES CATHOLIC CONFERENCE

As Chairman of the Committee on Social Development and World Peace of the United States Catholic Conference, I want to express my appreciation to the Committee for giving me the opportunity to submit this statement for the record. While the nature of this hearing is to review the operation of the Food Stamp Program in general, I wish to comment upon one proposal — S. 1279, a bill to amend the Food Stamp Act of 1977, which establishes a state block grant option for the Food Stamp Program.

Ethical Considerations

The essence of the message I would like to convey has to do with basic human rights and the role of government in guaranteeing and protecting those rights. The Catholic Church has a long tradition of social teaching on this subject, and our concern and interest in federal domestic food policies flows from that tradition. The United States Catholic Conference and Catholic bishops from around the world have called the right to eat a fundamental human right, one essential to the right to life itself. When we address the question of public policy on nutrition programs, then, we are not speaking of feeding people out of our largesse or as a matter of privilege. Rather it is a matter of social justice and basic human rights.

The Catholic tradition views basic human rights as a kind of baseline, a set of material conditions which are essential for human dignity. This concept of rights implies a social obligation, and ultimately, an obligation on the part of government. When, through the normal workings of the economy and the social system, the basic material needs of some citizens are not met, the government has the responsibility to intervene. It has the duty to see that no one goes without adequate food for daily sustenance. We believe that the federal government has the ultimate responsibility to see that this does not happen.

Need for a National Food Stamp Program

Seen in the human rights perspective of the Catholic Church, therefore, the proposals to make the Food Stamp Program a state option may seriously jeopardize the right to eat for many low-income people. The development of food programs such as Food Stamps, the WIC program, the School Breakfast and Lunch Programs, and the Child Care Program, at the federal level, have marked the commitment of this nation to ensure adequate nutrition for all our people. This is particularly true of children, the elderly and women, who comprise the majority of the poor and who are the most vulnerable in our society.

Recent reports by the President's Taskforce on Federal Food Assistance Programs, the U. S. Conference of Mayors, and several public policy and medical authorities, all conclude that poverty and significant malnutrition and food distribution problems exist in our country. These reports also help to point out that nutrition needs generally do not vary from state to state. Hunger is essentially a national problem, caused in large part by national economic policies. As a national problem, therefore, it requires a national solution. The Food Stamp Program was enacted and has developed over time as the mainstay of all federal food programs. It provides the single most effective national response to hunger of any program in America. It is the only federal food program open to everyone — women, men, and children, regardless of sex, age, family composition or geographical location.

Specific Problems Associated with State Option of Food Block Grants

The adoption of an optional state block grant program would effectively undermine our stated national goal of ensuring every citizen access to a nutritionally adequate diet. A primary reason for federal administration of the basic federal food programs is that the varying financial and administrative capacities of the states would not allow for the same level of assistance which is available through a national program such as the current Food Stamp Program. It was President Nixon who recognized the variations in the ability of states to maintain adequate nutrition programs for low-income people. Consequently, he established national eligibility and benefit standards for the Food Stamp Program. He did this after medical researchers in the late 1960s reported that when each state was left to design its own program, major gaps in coverage — and major problems of poverty and related hunger and malnutrition — remained.

If these gaps existed in the past, they are even more likely today when states are more hard pressed to raise the needed revenue for basic services. S. 1279 allows states to determine the criteria for eligibility and permits a shifting of a certain amount of their allocated food stamp money to other social services. In a time of decreasing state revenues, there is a greater then incentive for states to reduce caseloads and services.

There also exists a serious question as to whether the block grant approach would be effective in responding to fluctuating levels of unemployment. The current Food Stamp Program, with its income tested eligibility, responds well to unemployment changes. Funds are available to meet the need as unemployment fluctuates. Under the block grant approach, states would receive a predetermined amount of money. Consequently, the program would have much greater difficulty in responding to rising unemployment. Many states are also constitutionally bound to have a balanced budget and cannot handle midyear budget changes requiring additional funds to meet the needs of unemployed people.

The administrative problems of implementing and maintaining a state block grant are considerable. The Food Stamp Program has undergone a series of amendments each year since 1977. The time and money spent in implementing new regulations and in retraining caseworkers has caused disruption in services and loss of eligibility by potential clients. If we are to meet the needs of the large numbers of people seeking food assistance, then stability in the Food Stamp Program is important.

If service disruptions have occurred because of federally mandated change, widespread disruption is more likely to occur if states choose the optional block grant. Instead of national criteria, we would have multiple programs with states establishing different eligibility criteria — creating unevenness of program administration across the country. We may well see a return to former times when people migrated to states with higher benefit levels, leading to further social and economic burdens on those states.

The present Food Stamp Program assures protection and adequate safeguards for migrant workers when they cross state lines. There is no such guarantee in S. 1279 for these often neglected workers who harvest our food would face varying eligibility and documentation requirements from state-to-state.

There could also be targeting problems associated with the administration of an optional state block grant. The present income-test method is an effective and fair targeting mechanism. If this is abandoned, then there is no guarantee that states would not return to the more restrictive eligibility practices which existed before the food programs were administered nationally. The block grant approach might also increase competition among needy groups for the limited available resources.

In recent years, many food stamp critics have voiced the need for greater accountability. While a block grant approach ideally allows states greater flexibility, accountability of the use of funds in a time of reduced revenues will be harder to achieve. The flexibility given to the states under S. 1279 will make it difficult to develop adequate monitoring procedures to assure the necessary federal oversight of state option programs. The existence of a variety of different state programs could increase the likelihood of underpayments and overpayments as well as the risk of greater fraud and abuse than exists under the current federal program. These problems are more likely to occur because state counterparts to federal mechanisms for oversight and sanctions do not exist. Consequently, accountability for federal dollars would become even more difficult under the block grant option. Without uniform national data, it would become extremely difficult to adequately determine how extensive hunger is, who is receiving benefits, whether discrimination is occurring, or whether as a nation we are making any progress in meeting the nutritional needs of our citizens.

While my comments are directed primarily to the Food Stamp Program, let me say in passing that I am no less concerned about proposals to block grant the other federal food programs — WIC, the School Breakfast Program, the Summer Food Program, and the Child Care Food Program. These programs are all part of a comprehensive approach our nation has chosen to help meet the nutrition needs of the most vulnerable among us.

In summary, we are not opposed in theory to all block grants. Rather we are opposed to a Food Stamp block grant because it might deny access to adequate nutrition for many low-income people. The Food Stamp block grant proposal would replace a targeted and accountable program with an untargeted and unevenly administered program. Ultimately, this proposal would make it more difficult for our nation to ensure that an adequate level of nutrition is provided for all Americans.

For the sake of protecting the basic right to food for people, I urge you to reject the proposal to block grant the Food Stamp Program.

STATEMENT OF KAREN A. LUDWICK, PRESIDENT
UNITED COUNCIL ON WELFARE FRAUD, INC.

1. Bill Number and Sponsor

S. 1993, Food Stamp Integrity and Accountability Act,
Committee on Agriculture, Nutrition, and Forestry

2. Related Legislation and/or Rules

There are other pieces of legislation that have been introduced that address other important food stamp policy issues. These bills include many worthy proposals--S. 1208, the administration's bill, S. 1727, the McClure-Gran-Armstrong bill, and S. 1279 introduced by Senator Jesse Helms dealing with State option block grants for food stamps.

3. United Council on Welfare Fraud, Inc. Role in the Request

The United Council on Welfare Fraud, Inc. has been requested to present specific recommendations for improvement of the food stamp program before the Senate Committee on Agriculture, Nutrition, and Forestry, specifically in those functions of the current program that are regarded as most susceptible to fraud and abuse, and what, if any, changes may be needed to improve the program's operation.

4. Target of the Bill

The proposals contained in S. 1993 are drafted in such a way that they should have no impact on those in genuine need of food assistance. The bill addresses abuses of the program which have been cited repeatedly by those who are familiar with the food stamp program. Recipients and other individuals who have abused the program, or benefitted from its existing loopholes, will, indeed be affected by having their benefits reduced or, in some cases, eliminated.

5. Intent of the Bill

This legislation addresses improvements in the food stamp program, focusing on the insurance that Federal nutrition programs adequately serve those truly in need. The bill amends the Food Stamp Act of 1977 to reduce fraud, waste, and abuse in the food stamp program through improved means of preventing and detecting fraud, collecting overissuances of coupons, and reducing State agency payment error rates.

6. General Concepts

TITLE I--DEFINITIONS

Sec. 101. Flexible Certification Periods. Considerable savings could be generated with flexible certification periods which would allow cases to close within the shorter period when the workers have knowledge that the client is not going to be eligible beyond a given date. Some feel that households subject to monthly reporting must file a report each month to reflect their current circumstances, and the report captures almost every item that would be covered in a face-to-face interview. To shorten certification periods and use a monthly report simultaneously is superfluous, and would increase administrative costs drastically. They do not recommend that the six-month statutory provision be removed; however, they believe it could be extended as a state option to decrease the certification period if they feel respective circumstances warrant shortened certification period.

Sec. 102. Household Definition. We firmly believe that everyone in the household should be on the foodstamp case. We have too many households where our clients are residing with a non-client, non-relative, and the client is responsible for household expenses, i.e. rent, utilities, etc. The definition should include all persons living together, without exception.

We do not support the proposal for allowing states the option of establishing criteria for those unrelated or distantly related individuals who live together to demonstrate that they do not purchase food or prepare meals together. Granting state options to set respective criteria for granting separate household status does not improve the household concept; it only complicates it.

TITLE II--ELIGIBLE HOUSEHOLDS

Sec. 201. Student Loans, Grants, and Income. To penalize individuals who are attempting to get an education is self-defeating. To reflect consistent treatment among students, we recommend that students who pay their fees and tuitions through earned income be allowed to exempt mandatory fees and tuition from being considered as income, just as those students who receive certain scholarships, grants, etc. To be consistent with our recommendation regarding the household concept, we support the proposal to consider the income and resources of ineligible students in determining the remaining members' eligibility.

Sec. 202. Nonrecurring Lump-Sum Payments. We support consistency between the food stamp and AFDC program by requiring that lump-sum payments be counted as income in the month received.

Sec. 203. Financial Resources. We believe that the existing homestead definition should continue in the Food Stamp program. Since both the AFDC program and the Food Stamp program now treat this concept the same, we would like to maintain that consistency. The provision suggested limits the property resource exclusion to one home and the surrounding lot (not to exceed 10 acres). It is our opinion that anything in excess of 10 acres in an "urban area" would normally prove to be a substantial asset. This excess could be sub-divided and sold in lots depending upon zoning restrictions. However, in a "rural area" this excess may be the only source of income for the household, specifically for farming. If sudden financial difficulties such as temporary disability of the bread-winner, drought or flood should make the household eligible, except for the excess property, requiring the sale of this property may well eliminate any future earnings potential of the household. Therefore, we would recommend a close examination of this provision.

TITLE III--ELIGIBILITY DISQUALIFICATIONS

Sec. 301. Aliens. We agree with this proposal and believe that aliens should also be included in the household group for foodstamps.

TITLE IV--ISSUANCE AND USE OF COUPONS

Sec. 401. Cash Change. We believe this provision will eliminate hundreds of complaints of abuse of the program by retailers, as it eliminates the potential for households to use the unexpended coupon amount to purchase non-nutritious items. Usually, just to use up fractions of the dollar, households purchase bubble gum, candy, cigarettes, etc. Given the change, households could, however, purchase a bar of soap or other essential items not eligible for purchase with food stamps. The "no change" concept was in existence prior to the 1977 Food Stamp Act, but we understand it was abandoned because of multiple problems experienced by both households and merchants.

TITLE V--ADMINISTRATION

Sec. 501. Certification of Information. Requiring that all adult food stamp applicants and all adult recipients who are required to file certain reports certify in writing, under penalty of perjury, the truth of the information contained in food stamp applications, monthly income reports, and other documents would maintain further consistency with the AFDC program. We further believe that an additional statement should be made by the client in mail out counties whereby they acknowledge that they did, in fact, receive the stamps that were mailed. Under the current system we have no way of establishing that the client received the coupons, other than the fact that a lost or stolen affidavit was not filed with the Department.

Sec. 502. Improved Verification. This section requires verification of all income, household size, and other factors which either the Secretary or the State may require. This maintains consistency with the AFDC program and the increased verification will greatly curb abuses of the system.

Sec. 503. Expedited Coupon Issuance. This eliminates the Federal requirement of "expedited service" for certain households and grants States the option of establishing expedited service processing in cases where gross income is under $85 (or the household is a destitute migrant or a seasonal farmworker household) and assets do not exceed $100. Consistency in implementing the program from State to State is one of the best features of the food stamp program. As this is a Federal program, instead of giving states options of whether to establish expedited service criteria, it may be better to eliminate the concept. Since the food stamp program is not authorized to be an emergency program, eliminating the expedited service aspect of it would not be inconsistent with the program's intent. If it is necessary to retain this concept, we recommend that the five-day processing time be extended to reflect "working" days instead of "calendar" days.

Sec. 504. Photographic Identification Cards. This requires States to implement a photographic identification card system for food stamp recipients. Does this mean each household member? The cost of such a proposal would be exorbitant. If the proposal will only require heads of households to have a photo I.D., then this is further complicated as long as any household member or authorized representative is allowed to redeem coupons and to negotiate ATP cards. As an anti-fraud measure, photographic identification cards would not be cost effective in comparison with present machine-issued, encoded identification cards. We believe that many States have demonstrated that computerized issuance systems protect program integrity better and with less expense than photo identification cards. Expansion of this sytem into electronic funds transfer would further safeguard the system, and we believe that these systems should be analyzed further for cost effectiveness prior to implementation of this regulation.

Sec. 505. Wage Matching. This section permits States that do not have quarterly wage information from unemployment compensation records to use alternative methods of obtaining similar information, in lieu of using wage data from the Social Security Administration as required by current law. We support further wage matching as proposed by this section.

Sec. 506. Fraud Detection Offices. We support the establishment and operation of offices to investigate, and assist in the prosecution of, fraud in the food stamp program, dependent on the cost effectiveness of these offices to the States. We are concerned with the potential costs that this proposal may pass on to the States.

Sec. 507. Interest and Dividend Income. This Section permits the Secretary, after consultation with the Inspector General, to require States to match the food stamp rolls with names of individuals receiving interest and dividend income for purposes of detecting unreported income or assets if it is determined that to do so would protect the integrity of the food stamp program. We agree philosophically with this proposal but are concerned with the potential costs that the proposal could pass on to the respective states. Automatic Data Processing equipment, additional staffing, etc., would be required to properly implement this proposal. We would recommend that such equipment and staffing be 100 percent federally funded.

TITLE VI--DISQUALIFICATION OF RETAIL FOOD STORES AND WHOLESALE FOOD CONCERNS

Sec. 601. Eligibility for Participation in the Special Supplemental Food Program. This Section requires that stores disqualified from participation in the food stamp program also be ineligible, during the period of disqualification, from participating in the special supplemental food programs for women, infants, and children (WIC). We support this proposal.

TITLE VII--COLLECTION AND DISPOSITION OF CLAIMS

Sec. 701. Liability for Overissuance of Coupons. Liability for overissuance of coupons would be clarified that each adult member of the household would be jointly and severally liable for the value of any overissuance of coupons. This would appear to be a reasonable expectation.

Sec. 702. Collection of Claims. We reserve support of this proposal which requires States to collect overissuances which are not collected by benefit offset--primarily among households no longer participating in the program--because we do not know what procedures are going to be proposed in the "by other means" collection methods.

Sec. 703. Food Stamp Intercept of Unemployment Benefits. This permits States to establish systems for intercepting unemployment compensation benefits from households who owe uncollected overissuances due to fraud or misrepresentation in the food stamp program. States are allowed to retain 50 percent of such recoveries, and we support this proposal, if cost effective.

Sec. 704. Food Stamp Intercept of Federal Tax Refunds. This section permits the States to submit to the Internal Revenue Service the names of individuals who owe uncollected overissuances due to fraud or misrepresentation in the food stamp program. The IRS would subtract the amount owed before issuing any tax refund to such individuals, and the States could retain 50 percent of such recoveries. Again, we support this proposal, if cost effective.

TITLE VIII--ADMINISTRATIVE AND JUDICIAL REVIEW

Sec. 801. Stays of Administrative Action. Insufficient evidence is available on which to base a comment.

TITLE IX--ADMINISTRATIVE COST-SHARING AND QUALITY CONTROL

Sec. 901. State Agency Liability for Errors. We oppose eliminating the Secretary's authority to waive applying a sanction for overissuance. To do so eliminates the single, most effective means to reduce the error rates. Under threat of sanctions, states have formulated effective corrective actions that are devised to reduce errors. Without this authority continuing to be available to the Secretary, states may choose to accept the sanction and do nothing to reduce their errors. We do not agree with the 3% error rate standard. When you consider that the 3% tolerance encompasses both agency and client errors, this tolerance is unrealistic. It imposes a level of efficiency greater than that imposed on any other system of government of which we are aware. We do not believe that requiring the State to reimburse the federal government for any loss above the three percent level would be the best incentive for improved performance; and in view of the mandatory collections from households we believe that the federal government may be collecting once from the States and once from the clients.

Sec. 902. Geographical Error-Prone Profiles. Many States are already doing special corrective action plans, sending monthly progress reports, and doing whatever else their respective regional offices require them to do to demonstrate efforts to reduce error rates. Further administrative requirements could seriously jeopardize a state's capability to administer the program.

7. Intended and Possible Unintended Effects

The States have consistently maintained that the most effective means of reducing error rates and improving integrity of the food stamp program is to stop changing procedures and allow the program to stabilize. This legislation would result in additional change for the program. However, at the same time, these are areas that have been most subject to complaint by workers and investigators because they are inconsistent with the AFDC program; thereby requiring the front line workers to shift gears and change thinking in determining eligibility for each program. These are areas where the workers themselves believe that changes should be made.

8. Fiscal Implications

It has been estimated that the proposed legislation will save taxpayers between $600 and $700 million annually. It is uncertain at this time what increased costs the States will assume with the legislation.

9. Advantages and Disadvantages

The distinct advantage of the legislation is that it addresses inconsistencies with other programs and establishes uniformity with the existing AFDC program. Another distinct advantage is that 50% of collections may be retained by the respective states. However, the disadvantage is that the cost of implementation of these changes by the States is unknown at this time.

10. Recommendations

The following recommendations might be considered:

A. Extension of a State option to decrease certification periods if they feel respective circumstances warrant shortened periods.

B. The establishment of a household definition to include all persons living together, without exception.

C. Students who pay their fees and tuitions through earned income should be allowed to exempt mandatory fees and tuition from being considered as income, just as those students who receive certain scholarships, grants, etc.

D. Continuance of the existing homestead definition as it is consistent with the AFDC program.

E. Aliens should be included in the household group for foodstamps.

F. Further review respecting cash change as to the reasons why this concept was abandoned.

G. The addition of a statement on monthly income reports wherein the clients acknowledge that they did, in fact, receive their food stamps that month.

H. Since the foodstamp program is not authorized to be an emergency program, elimination of the expedited service aspect of it would not be inconsistent with the program's intent. If it is necessary to retain this concept, we recommend that the five-day processing time be extended to reflect "working" days instead of "calendar" days.

I. Further review of the computerized issuance systems which are believed to protect program integrity better and with less expense than photo identification cards.

J. Equipment and staffing be 100% federally funded if interest and dividend income matches are mandated.

K. Further analysis of the 3% error rate sanction to guarantee that the federal government does not collect once from the States and once from the clients.

FEB 29 1984

THE SECRETARY FOR HUMAN RESOURCES
COMMONWEALTH OF KENTUCKY
FRANKFORT 40601

February 22, 1984

The Honorable Walter "Dee" Huddleston
United States Senate
Washington, D.C. 20510

Dear Senator Huddleston:

I am very concerned about the potential fiscal sanctions which could be imposed on this state in the Aid to Families with Dependent Children, Medicaid, and Food Stamp Programs as a result of the error rate penalties. The penalty thresholds of three percent in AFDC and Medicaid and 5 percent in Food Stamps are unfair and unrealistic. I am attaching a report which describes how the Quality Control system is invalid in terms of the sanctions and which sets forth potential fiscal effects on Kentucky.

The fiscal implications for failure to meet the unreasonable penalties can result in serious consequences for needy Kentuckians. In the Kentucky Medicaid Program, with an average monthly sanctionable expenditure of $23 million, failure to meet a payment error goal could mean a potential loss of approximately $6.7 million per year for every percentage point by which the goal is exceeded.

This is to request your consideration of legislative action to remedy this unfair penalty system. We recommend a moratorium on sanctions to give the states and federal government time to work together in finding a solution to the problem.

Sincerely,

E. Austin, Jr.
Secretary

Attachment

STAFF REPORT

Kentucky Cabinet for Human Resources
Department for Social Insurance
Division of Management & Development

SUBJECT: Fiscal Sanctions in AFDC, Food Stamps and Medicaid

DATE: February 21, 1984

I. Validity of Quality Control Systems in AFDC, Medicaid and Food Stamps

There is a need for a reliable data base and proper use of statistical measures and assumptions for arriving at error rates. The Government Accounting Office and other independent auditors such as Touche Ross have recommended on numerous occasions that fiscal sanctions be discontinued since they are ineffective, counter-productive, and not conducive to proper corrective action and since the data itself is not valid as it is being used in the sanctions methodology. In particular, the conduct of the federal rereview process is subject to much criticism, the regression methodology is very suspect in statistical circles, and the failure of the sanction system to recognize the inherent sampling error, all make any attempt to use such data for sanction purposes extremely ill-founded.

In regard to Medicaid, the question of sampling error is particularly pertinent because of the unusual sample design and the small sample size. One single sample case, if found to be ineligible and if undergoing extensive treatment in a hospital, can and has, in fact, increased our payment error rate by as much as two or three percentage points. Yet no recognition is given to the high level of sampling error associated with such a result.

In both AFDC and Food Stamps, there are proposals underway to greatly reduce the sample sizes and to change to annual sampling. In fact, in Food Stamps proposed regulations to this effect have already been issued and many states, including Kentucky, have implemented these regulations after securing waivers. Although this will lessen the administrative costs of the quality control system, the validity of the data for both management and sanctions purposes will also be greatly lessened with the net results that corrective action planning is greatly hampered while the chances of being erroneously sanctioned are greatly increased.

II. Fairness of Fiscal Sanction Systems

First, the Omnibus Reconciliation Act of 1981 mandated that all states devise administrative and budgetary means to recoup all misspent monies regardless of who caused the error. Such procedures in themselves increase staff workloads and pose additional financial burden because of fiscal and practical considerations. To require states to pay back money, as determined by a fiscal sanction system, when some or all of the misspent money has been recouped and properly dispersed is grossly unfair. The current system does not allow for the fact that much of the "misspent money" as reflected in error rate percentages do not, in fact, represent actual lost dollars when applied to extended periods of time.

Second, in regard to the penalty thresholds, eventually 3 percent in AFDC and Medicaid and 5 percent in Food Stamps, such low levels are unquestionably unrealistic in view of the long history of complex and everchanging federal laws and regulations. Particularly in the last two years in which so many changes have been federally mandated, there simply has not been adequate time for federal staff to properly implement the laws through clear regulations and for federal clarification of the many complex issues which even today remain unresolved. Needless to say since many of these mandated changes, such as mandatory monthly reporting and retrospective budgeting, have required almost complete overhauls of the way in which many states administer these programs and since many of the mandated changes are in and of themselves very highly error prone, it simply is not appropriate to penalize the states at all, much less at such unrealistically low thresholds, until there has been adequate time for states to implement the changes, revise the processes, clarify the issues, assess the impact on the error rates, implement necessary corrective actions, and evaluate the effects of these actions.

The Food Stamp program, which is a good case in point, represents a situation in which states may find few new ways to correct causes of errors. Specifically, certain innate characteristics of the Food Stamp population (such as mobility in and out of the job market and the Food Stamp program itself) coupled with the phenomenal caseload growth of the last two years are just two of numerous factors which are inherently conducive to high error rates that are not ameliorated by corrective action. The lack of flexibility given to the states in setting policy and eligibility standards are examples of other such factors. All of these make actions to reduce error rates to established tolerance levels unproductive and therefore not cost-effective.

III. Specific Fiscal Effects of Sanction Systems in Medicaid, AFDC, and Food Stamps

The fiscal implication of failure to meet these arbitrary and unreasonable penalty thresholds is not something the states are prepared to accept. In a program such as Medicaid in which Kentucky's average monthly sanctionable expenditures are $23.0 million, failure to meet a payment error goal by as little as 1.0 percentage point would mean a loss of $163,000 monthly or $2.0 million annually in federal matching funds. At current matching rates, this money would buy $4.7 million per year resulting in a potential loss of about $6.7 million per year for every percentage point by which a goal is exceeded. In Medicaid since we have experienced error rates as high as 5.1 and 4.6 percent as compared to a current goal of 3.0 percent as of April 1983 and since under the current sampling design which frequently yields results with enormous sampling error, there is a real possibility that the above quoted potential withholding or even double that amount could occur.

A similar fiscal disaster could also occur in AFDC. Based upon the findings of the April - September 1983 period, our unofficial sanctionable rate is 4.9 percent. If that rate were to continue in Fiscal Year 1984 during which time the tolerance level becomes 3.0 percent, Kentucky would stand to lose approximately $5 million for that year alone. Since a large portion of this error rate involved recipients who failed to file a monthly reporting form but who are otherwise financially and technically eligible, elimination of such errors will merely increase administrative expenditures greatly but will not reduce benefit expenditures significantly, if at all, since the error is usually due to oversight instead of to refusal to comply.

The fiscal problem is equally as serious in Food Stamps since the goals of 7 and 5 percent for FY 84 and FY 85 are not at all realistic. It is our understanding that proposals to lower this even further to 3 percent are forthcoming. Based on the experience most states have had in AFDC with mandatory monthly reporting and retrospective budgeting, both of which are just now being required in Food Stamps, error rates are likely to increase as a result of these federal requirements at the very time at which tolerance levels are being decreased.

Then, too, there is the question of the fiscal effects that use of the federally regressed error rates could have on a state's penalty. In past periods the federally regressed rate has been as much as 2.1 percentage points higher than the original state findings. Were the original state findings to already be in excess of the tolerance level, all of that 2.1 percentage point difference would result in increased withholding. Yet the states have very little real imput into the resolution of questionable decisions by federal rereviewers. And equally if not more importantly, the regression formula is admittedly suspect in statistical circles.

Kentucky is already operating all of these programs on a very tight administrative budget with no staff increases having been allowed in the last four years in spite of the phenomenal increase in caseloads, especially in Food Stamps. We cannot possibly absorb the loss of any federal funding without this being immediately translated into staffing cuts, benefit cuts, or perhaps both. Considering that our AFDC need standard has not been raised in ten years, it has obviously been far outstripped by inflation. Yet we can hardly afford to consider raising it in the face of such potential sanctions.

STATEMENT OF THE FOOD MARKETING INSTITUTE

The Food Marketing Institute (FMI) is a nonprofit association that conducts programs in research, education, and public affairs on behalf of its 1,300 members--food retailers and wholesalers and their customers in the United States. FMI's member companies operate over 17,000 retail food stores with a combined annual sales volume of $130 billion--half of all grocery sales in the United States. More than three-fourths of FMI's membership is comprised of independent supermarket operators or small regional firms.

Almost all food stamp redemptions are made in grocery stores. Because of the unique relationship between our industry and the food stamp program, FMI's members have a continuing opportunity to see the workings of the program on a daily basis in every section of the country and type of community. As a result, FMI and its members have long supported the food stamp program as the best and most effective use of taxpayers dollars in eliminating hunger in America.

Over the years, FMI has worked with Congress and the Administration in exploring ways to improve the efficiency and effectiveness of the program.

The grocery industry is currently facing a problem that has the potential of seriously damaging the food stamp program. Grocery stores are being assessed a charge by a growing number of banks for redeeming food stamps. The impact of new technology and the effect of bank deregulation gives banks the ability to identify their costs for providing various services and they have chosen, in turn, to impose charges on food retailers.

Of course, retailers have long known that food stamp business imposed extra handling costs, but the law prohibits those costs from being passed on to food stamp customers. Those customers cannot -- and should not -- in any way be discriminated against. Not by forcing them to use a special check out lane, not by charging higher prices.

But now, Mr. Chairman, the banks sense an opportunity to force retailers to pay for some of their cost of doing business. In short, the retailer and ultimately the low income food stamp recipients and other consumers, are to absorb the banks overhead.

Why?

Last summer, FMI conducted a survey to determine the extent of this problem. The results of the survey are attached.

Of the Independent operators who responded, 16% are assessed a charge averaging 3¢ per coupons. Of the larger companies that responded 49% are assessed a charge averaging 2.95¢ per coupon. Charges to retail grocers range from a fee of 2¢ per coupon to 6¢ per coupon. If they charge at the high end of the current range, this could result in charges of $156 million per year.

Last summer FMI, and others met with the American Banker's Association at the Department of Agriculture to attempt to resolve the problem of costly bank fees. Unfortunately, our meetings were most unsatisfactory because of the bankers' unwillingness to suggest anything other than that retailers ought either to change banks, or drop out of the food stamp program. Hardly constructive suggestions! And of course, no new services are being provided to justify these fees.

Our industry sought regulatory relief. In September, FMI presented Secretary Block with a legal memorandum suggesting that this problem could be resolved through the existing authority of USDA and the Treasury Department. Congressman Emerson and Senator Dole also asked the department to look into this matter.

Last December, USDA advised us that while they did have the authority, they would not initiate a rulemaking to preclude financial institutions from charging fees for the redemption of food stamp coupons.

Our last alternative is to seek a legislative remedy.

While food retailers obviously have an economic interest in the programs we believe that this issue is one of fairness and equity. We believe the intent of Congress was to prohibit all parties from charging extra to use food stamps.

FMI has estimated that the direct cost of handling food stamps in supermarkets is $288 per store per week, or approximately $15,000 per store each year.

If we assume $15,000 per store per year is a conservative estimate of the direct retailers cost of handling food stamps, then the total industry cost for the 28,900 supermarkets in the United States is over 434 million dollars per year. This figure does not include the 94,000 grocery stores not large enough to be classified as supermarkets (those with total annual sales volume below 2 million dollars).

We cite these figures to prove banks are not alone in bearing the cost of serving food stamp customers. They are alone in trying to shift these costs to someone else.

Food Stamps are part of a program to serve the needy created by society at large, not by any one industry. In so far as possible, the burden of this program should be borne by society at large. Grocers treat these costs as part of their general business overhead, bankers should do no less.

Mr. Chairman I hope this committee can appreciate the implications for the future of the food stamp program. Retailers operate on a 1% net margin. In addition, we are prohibited from passing on our additional costs to the food stamp customer.

However, in the case of the banking industry, this may be a new revenue opportunity. Not only are the banks increasingly collectings fees, but in addition, the questions of "float" has been raised. It is very difficult for our industry to assess that practice. Some banks credit our retailers the same day and some do not and those that do require compensating balances.

Mr. Chairman, we request that the committee prohibit these banking charges. They are aimed at the neediest members of our society. Surely America's financial institutions will not object to participating in a program designed to feed the hungry.

Mr. Chairman, thank you for asking our industry to present its views. I hope we can continue to participate with your committee in finding a fair and equitable solution.

STATEMENT OF DONALD B. ROARK, PH.D., COMMISSIONER, MISSISSIPPI DEPARTMENT OF PUBLIC WELFARE AND CHAIRMAN, FOOD STAMP COMMITTEE OF THE NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS OF THE AMERICAN PUBLIC WELFARE ASSOCIATION

Mr. Chairman, and members of the committee, my name is Donald B. Roark. I am Commissioner of the Mississippi Department of Public Welfare and chairman of the Food Stamp Committee of the National Council of State Public Welfare Administrators.

On behalf of approximately 20 percent of Mississippi's population who receive food stamps, and on behalf of the chief State executives responsible for administering the Food Stamp Program, I appreciate the opportunity to present information on the impact of legislative and regulatory policy changes designed to reduce fraud, waste, and abuse and to improve program efficiency and integrity.

Since the 1977 reform of the Food Stamp Act, numerous efforts have been made to combat fraud, waste and abuse in this large, complex, national program. The significant attentive and high level of resources devoted to eliminating these problems have significantly improved the ability of Federal and State administrators to deter and detect program violations. In addition, the success that has been achieved in this area, has begun to improve the program's image in the public eye.

No single change or requirement can be given all the credit for this remarkable improvement we are witnessing in the Food Stamp Program. What is happening is the cumulative effect of sophisticated and innovative application by the States of information processing, public education and awareness, and cooperation between Congress, the Federal Government and the States to insure that program benefits are used as intended by Congress.

STABILITY URGED

I came today to urge this committee to make as few changes as possible in the Food Stamp Program. What the Food Stamp Program needs, most of all, and deserves is stability—a period of rest from extensive legislative and regulatory reform.

We all know there will always be some aspect of the Food Stamp Program that could stand improvement. However, my personal judgment and that of the National Council of State Public Welfare Administrators is a strong position that another round of changes, adding to the program administrative requirements at this point would prevent us from getting the most out of the measures already enacted and in various stages of implementation.

Nevertheless, we also believe, and very strongly I might add, that something can and should be done to alleviate certain problems which cause unnecessary administrative costs and burdens and which have been proven to be cost ineffective.

The more I see of the Food Stamp Program, the more I am struck by the transformation that has occurred. I just reviewed the first food stamp manual of the Mississippi Department of Public Welfare. It was dated 1965, and contained 40 pages. Then, I reviewed our 1984 manual—three bound volumes consisting of 978 pages. Wow!! What a change from simplicity to unbelievable complexity.

More than ever, the legislative and regulatory mandates are to reduce errors, identify ineligible recipients and achieve economies. "Quality control," a euphemism for "expenditure control" has rapidly accelerated.

The mood and emphasis today is managerial control often at the expense of the service ethic. In other words, managerial control and cost consciousness under the guise of antifraud, waste and abuse control have politicized the Food Stamp Program to the extent that the service ethic of benefits to the poor and the near poor are being sacrificed and partially jeopardized.

Legislative mandates and regulatory directives have terrifically increased administrative costs and simultaneously reduced benefits under the managerial ethic.

Since the overhaul in 1977, the Food Stamp Program has been the subject of at least some legislative action, aside from appropriations, in every year. I do not know of any other domestic program possessing such a record of change and legislative preoccupation.

The past year over 30 regulatory changes were mandated by FNS. In fact, there have been 90 changes in the last 30 months—that's three a month or one change every 10 days. Such piecemeal implementation creates continuing program turmoil, among administrators as well as recipients, and results in increased errors.

State and local administrators, food stamp case workers and recipients are frustrated, confused and innundated.

Senators, it is truly an administrative nightmare—a needless jungle of paperwork, much of which is cost ineffective.

We believe the basic program design is sound with the exception of (1) Legislative and regulatory overkill; (2) Unnecessary paperwork that is cost ineffective; (3) Mandatory monthly reporting and retrospective budgeting; and (4) Quality control or error rate measurement.

Perhaps the ultimate cost of continuous changes is the damage it does to the Food Stamp Program in the eyes of a concerned public, who see it as a program permanently in turmoil and out of control.

What the Food Stamp Program needs and deserves is stability—a period of rest from further legislative and regulatory reform.

In this regard—the Food Stamp Program must remain the cornerstone of food assistance. Cash out of the Food Stamp Program, substitution of the commodity program, optional block granting of food stamps are fraught with many disadvantages. Continuation of food stamps, essentially in its present form, is the key in the National Program of Food Assistance.

MONTHLY REPORTING/RETROSPECTIVE BUDGETING

Monthly reporting and retrospective budgeting is not the panacea the administration had hoped. In 1980, Congress enacted legislation making MR/RB a State option. However, in 1981, Congress reversed gears and—at the request of the administration—made use of MR/RB a mandatory Federal requirement after October 1, 1983.

The Congressional Record of September 30, 1983 regarding the delay in implementing MR/RB in the continuing resolution, clearly indicated the use of preliminary information of the Illinois demonstration project in terms of cost savings and benefit reductions. The bottom line of that now completed project is—monthly reporting in food stamps failed to reduce error rates or benefit costs. Benefit costs actually increased 8 percent. Even more shocking, administrative costs skyrocketed, rising 20 percent.

The waiver authority in the 1982 Reconciliation Act authorizing the Secretary of Agriculture to except certain categories of households, et cetera, has been badly fumbled and has not, and will not work effectively.

Congress passed on November 18, 1983 new legislation (HR 4252) providing States more flexibility in seeking monthly reporting waivers. Over 30 States had asked Congress to make MR/RB a State option rather than a mandatory Federal requirement. While Congress did not go that far, the new legislation directed USDA to implement the new waiver authorities immediately before MR/RB became mandatory on January 1, 1984. Congress explicitly directed USDA to be cooperative with the States and approve monthly reporting waiver requests as long as the requests were on a reasonable basis.

Several States have been notified by FNS that they are out of compliance despite reasonable requests by the States under HR 4252. Those States that have implemented MR/RB are having great difficulties. Generally, MR/RB under expanded waivers, is not cost effective, is increasing errors and creating havoc among recipients.

In Mississippi, we implemented MR/RB January 1, 1984 on FNS approved, targeted household categories. Approximately 35 percent of our food stamp households are on monthly reporting. At the last meeting of our State welfare board, a large group of irate food stamp recipients were present, demanded that our board cease MR/RB requirements immediately. A recipient outcry!!

On March 2, 1984, 38 State public welfare administrators signed a letter, sent to the members of the House and Senate committees with jurisdiction over the Food Stamp and AFDC Programs. The text of that communication simply requests Congress to make MR/RB a State option rather than a mandate imposed by the Federal Government. These 38 States have asked to be trusted with the flexibility to utilize monthly reporting where it would be effective and to direct their resources toward other management techniques where other approaches are much more likely to be more successful in reducing errors and costs.

Many members of Congress are fond of saying that some well-intentioned social programs simply have not worked as intended and need to be altered. MR/RB is a super example of a management technique to reduce errors and costs that although similarly well-intentioned, has not worked out. Mandatory MR/RB should be repealed and as a minimum made a State option for use only where it would be cost effective.

ERROR RATES—QUALITY CONTROL

Congress in 1982, adopted a graduated error rate reduction system. The sanctions that would be and have been levied against the States for failure to reach the error rate targets will cost States millions of dollars—millions of dollars that should be spent providing services to the citizens of the States.

State welfare administrators believe strongly that financial penalties are not needed to spur States towards better program management. Good management, well run and cost effective programs are in the States' interest. Considerable State resources have been and continue to be invested in program improvement. However, if fiscal sanctions must be included as an integral part of the Food Stamp Program, a reliable and statistically valid means of assessing errors is needed immediately.

The current quality control system, used to measure program errors, has three major weaknesses: (1) It does not produce valid estimates of real errors; (2) Information is not produced in a timely fashion to permit effective corrective action; and (3) States that have performed well are often penalized.

The State administrators have prepared legislative language that we believe would put the quality control system on the right track, by creating a uniform error measurement system for medicaid, aid to families with dependent children, and the Food Stamp Programs. Our proposal would require a joint study by the Secretary of the United States Department of Agriculture and the Secretary of HHS concerning the quality control system. While the study is being conducted, we propose a suspension of all fiscal sanctions. Following completion of the study, report and State comments, regulations would be developed for the Food Stamp Program modifying the current system in favor of a uniform quality control system for income support programs. If errors are to be reduced and controlled, we must be certain that errors are properly defined, identified, and accurately measured.

I have been unable to find error rate sanctions imposed on the private sector or upon many of the major units of the Federal Government and their programs.

It is true that for the past 16 years, the Federal Government's effort to fix up unsafe cars has been met with yawns as often as with action. Since 1967, the Federal Government has recalled 97 million automobiles in almost 3,000 recall campaigns. Interestingly enough, in one recent year, one car manufacturer recalled more cars than it produced.

What about some other error rates? Listen to these cost overruns (errors) in the defense area:

	In percent
Boeing cruise missile	21
Chrysler M-1 tank	36
General Dynamics DIVAD gun	60
Trident submarine	70
General Dynamics F-16 fighter	71
Hughes helicopter	76
General Dynamics Titan missile	117

What error rate sanctions have been applied to the Department of Defense?

Graduated error rates in the Food Stamp Program are seven (7) percent this year and go to five (5) percent next year. The administration and certain Senate bills are pushing for an immediate three (3) percent error rate.

Why have social programs become the target of error rate sanctions? Are the priorities on quality control—error rate and error sanctions out of kilter? Why aren't error rate sanctions applied to products rather than services where the big bucks are? "No excuse, sir," says the Pentagon in "horror stories" of Defense contractors and purchaser waste. The examples keep rolling along. In fact, a 12¢ Allen wrench was offered to the Air Force for a mere $9,600. The Air Force didn't buy, but the Navy managed to shell out $15,476 for a four piece sofa.

What has happened to our sense of fairness and equity? Do we need to re-examine our emphasis and priorities in quality control errors and sanctions and quit sending a dollar after a nickel?

Despite allegations by some distinguished Senators that States have no real reason to reduce errors since the program is 100 percent federally funded, the reduction and elimination of program abuse is a special concern to State administrators. After all, we are taxpayers also. The combined use of many provisions in law designed to make the program less prone to violations, is having a very positive effect. Our commitment to this effort is no less than our ongoing battle to reduce program errors.

The States have divised some very unique programs to combat program abuses. Federal financial assistance through 75 percent matching funds for fraud reduction efforts has helped make it possible for the States to implement aggressive programs.

In addition, allowing states to retain a percentage of collected claims on overissuances has certainly been an incentive for greater efforts in this area. States have used these funds to upgrade and enlarge their investigative staffs.

Eligibility workers are also being trained in investigative techniques making them an integral part of fraud, waste and abuse programs—but eligibility workers cannot make collateral contacts to verify information without the recipients approval. The quality control worker can freely make any collateral contacts. Thus, many errors are made, subject to sanction, because of this limitation on the eligibility worker.

The efforts of Mississippi Department of Public Welfare to eliminate fraud rank well above the national average according to the latest USDA report. Mississippi held 611 Food Stamp fraud hearings during fiscal year 1982 compared to the national average of 226. The State was ranked sixth nationwide.

Fraud prosecutions completed totaled 365, which gave Mississippi a ranking of twelfth. The national average was 193.

This is quite an accomplishment with only 11 investigators statewide in the State with the biggest percentage of its population (20 percent) in the Nation participating in Food Stamps. The State administrative cost per household in Mississippi is $49.56—the 48th lowest in the Nation. This shows, conclusively, that Mississippi, along with most of the States administers a responsible Food Stamp Program, sensitive to our obligations to both the recipient and the taxpayer.

Several States have increased their computer capability and thus are better able to maintain files on program violators and prevent them from receiving benefits simply by moving around the State. Statutory changes such as allowing States to reduce household allotments to correct overpayments, stiffer disqualification penalties for households and retailers have improved the Food Stamp administrators' ability to deter and prevent repeated abuses.

Mississippi is totally manual in its Food Stamp Program, but we are pioneering in the development of an all-welfare programs, on-line, integrated data base computer system. This system, known as MAVERICS

Mississippi
Application
Verification
Reporting
Information
Control
System

is scheduled to become operational statewide in late 1985 or early 1986. We are extremely excited about what MAVERICS can do for us in the Food Stamp Program.

We are however, very distressed that USDA Federal financial funding in the development of this computer capability, for the National Food Stamp Program is only 75 percent while development costs of other support programs in HHS, which are not nearly as national in scope, are funded 90 percent. We believe that Congress and USDA should at least fund development costs of such computer capability in the National Food Stamp Program at the 90 percent level or higher.

MAIL ISSUANCE

Mail issuance is an efficient and cost effective method of delivery of food stamps: however, even more important is the service it provides to those in need. In a rural State, such as Mississippi, with little public transportation, it is often the difference between hunger and a nutritious diet.

Prior to implementation of the mail loss sanction system, over 50 percent of participating food stamp households in Mississippi received their allotments by mail. In monitoring the losses, it has become apparent that for the most part these losses can be attributed to problems within the Postal Service. Even so, our agency is held liable for all mail losses in excess of the tolerance limit, including those over which we have no control. The result has been a reduction in this vital service to many elderly, disabled and disadvantaged citizens in our State.

Once the coupons are deposited in the mail all control is out of our hands. Control—yes. Responsibility—no. Not according to food stamp regulations. If food stamp coupons are mailed and if they do not reach the intended recipient—we pay. We are willing to assume responsibility for our errors but not for the actions of a thief or the inefficiency of another Government agency. Just as does any person or business mailing a letter, we have a right to expect our mail to be delivered, safe from tampering and theft, and if it is not returned to the sender, then the Postal Service should be responsible.

Despite continued pleadings to FNS officials to resolve this problem either through regulatory change or interagency cooperation or contract, nothing constructive has been accomplished. Perhaps Congress should direct or take action to preserve mail issuance for the food stamp clients. Most of the clients have never had a mail loss. They are careful to comply with every request, every suggestion for preventing loss of their coupons. Loss of mail issuance will force the elderly and the disabled to come to our office to receive their coupons. They may have to pay someone to bring them or pay someone to come for them. The employed person will have to ask off from his job to come and get his coupons, losing pay, perhaps, and reducing the productivity of his employer.

PLANNED REVISION OF FOOD STAMP REGULATIONS

In October 1983, a draft of a comprehensive rewrite of the food stamp regulations 271-274 was obtained. Apparently, this rewrite was directed by Carl B. Williams, who previously worked with President Reagan when he was Governor of California and is a welfare policy consultant who has been providing advice to the White House, FNS, and HHS. Mr. Williams is a former business associate of Robert B. Carleson, a Special Assistant to President Reagan. The October draft of this work revealed that much more than program simplification was at stake. The rewrite was making substantive changes to many parts of the regulations. Robert E. Leard, Administrator of FNS, refused to discuss details or the rationale of the regulations rewrite at the annual meeting of the American Association of Food Stamp Directors in October and emphatically announced the regulations rewrite would be the Christmas stocking stuffer.

The Christmas stocking stuffer was not delivered. Word was that the "Williams regs" were on FNS' back burner—probably due to vocal opposition of State administrators, advocates, the press, and some members of Congress.

But in January 1984, USDA sent to interested Members of Congress, and the States a draft of the Williams food stamp regulations. Those regulations would completely rewrite parts 271-274 of the Federal Food Stamp Rules and make several dozen significant changes (as well as much larger numbers of smaller changes).

At the Food Stamp Committee meeting on February 15, the draft of the Williams food stamp regulations that FNS circulated to the States at the end of January was reviewed. A letter was written to FNS Administrator Leard pointing out that many substantive changes adversely affected the States and local administrators and infringements on recipient rights still remained in the regulations, and that preamble was missing. It was suggested that a major overhaul of the rules is not needed and, at the very least, FNS should wait until after the Food Stamp Program is reauthorized in 1985 before undertaking any further major rulemaking or regulations revisions.

In the last few days, FNS has issued yet another draft of the William regs. This draft included a preamble which is not very illuminating. It fails to mention a number of significant policy changes that are contained in the draft regulations. The preamble attempts to portray the regulations as containing significantly fewer substantive changes than is actually the case.

Also, the regional offices of FNS are scheduling meetings to discuss the regulations rewrite. Every indication is that FNS is intensely pursuing publication and implementation of these regulations at an early date.

The draft rules would have an adverse impact on State administration simply by virtue of the massive number of regulatory changes that they would entail. All of parts of 271-274 would be changed, with hundreds of paragraphs of the regulations rewritten in some fashion. The work of sorting through all the changes at the State level, revising manuals, reprogramming computers, retraining workers, re-educating recipients and implementing a very extensive set of detailed regulatory changes would be substantial, costly, likely to increase errors and turmoil producing at a time when stability is needed.

Perhaps Congress should suggest or even direct that USDA delay regulatory revisions until after the 1985 reauthorization, since it appears that FNS is intent on implementing the Williams regs in the near future;

In summary, we strongly urge and request this Senate committee to:

(1) Provide a period of rest from major legislative and regulatory reforms. The Food Stamp Program is basically sound but needs and deserves a period of stability.

(2) Mandatory and statutory monthly reporting and retrospective budgeting in food stamps should be repealed and made optional to States and jurisdictions who find it cost effective and feasible to implement.

(3) If error rate sanctions are to remain, then a coordinated and uniform quality control system for medicaid, AFDC, and food stamps should be developed that defines, identifies and measures real errors. All fiscal sanctions should be suspended until such a uniform quality control system is developed and implemented.

(4) Increase Federal financial participation funding for development costs of computer systems in the Food Stamp Program from the current 75 percent level to at least the 90 percent available in other support programs that have a less national emphasis than does food stamps.

(5) Preserve mail issuance for elderly, disabled and disadvantaged recipients of food stamps by requiring FNS to remove the liability of welfare agencies for postal losses or make the postal services liable for losses attributable to postal services.

(6) Direct USDA to delay and defer any further action on the "Williams regulations" completely rewiting 271-274 food stamp rules, at least until after reauthorization of the Food Stamp Program in 1985.

(7) The State public welfare administrators have reviewed S. 1279 (Helms, food stamp optional block grant), S. 1727 (McLure, et al.—A bill to reform and reduce the cost of administering the Food Stamp Program) and S. 1993 (Helms—Food Stamp Integrity and Accountability Act) and are strongly opposed to these pieces of legislation. Provisions would restore the purchase requirement, restrict eligibility from the current 130 percent proverty level to 100 percent of the proverty level, three percent error rate, mandatory photo ID's countersignature of food stamp coupons, elimination of minimum $10 benefit, reduction of standard deductions, et cetera, et cetera, et cetera.

The provision of S. 1297, S. 1727, and S. 1993, if enacted would be administratively burdensome, costly, punitive, and discriminatory; would eliminate or substantially reduce program benefits for millions of needy recipients including children and the elderly; and are incompatible with program purpose and administrative realities.

The National Council of State Public Welfare Administrators is on record as strongly opposed to all three of these bills.

National Council of State Public Welfare Administrators,
Washington, DC, 20005, March 1, 1984.

Hon. Jesse A. Helms,
Chairman, Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

Dear Senator Helms: As state public welfare administrators, we once again strongly urge congressional action to amend existing statutes pertaining to mandatory Monthly Reporting and Retrospective Budgeting (MRRB) in Food Stamps and Aid to Families with Dependent Children (AFDC).

Extensive research conducted by federal agencies and the states over the past several years, coupled with the preponderance of state experience in managing MRRB, raises serious questions about the administration's assertions with respect to controlling errors and estimated savings.

Monthly reporting is an expensive administrative procedure that has the effect of displacing other known and proven eligibility monitoring techniques. The administration has claimed savings from MRRB that far exceed those actually achieved. Indeed, DBO has revised its savings estimate to "little or none". MRRB's impact on errors as promised by the administration is also disproved by the research.

Beyond the apparent misrepresentation concerning the cost-effectiveness of MRRB, we are troubled by the evidence of hardship created for clients by monthly reporting and retrospective budgeting. We find MRRB an administrative burden for the states and an often complex and inequitable procedure for clients.

The administration demands a mandatory statute and promises relief through a waiver process. This inadequate response to the states' concerns only serves to create an even more extraneous federal demand that further encumbers states' ability to properly manage the programs.

We ask that Congress act to permit a state option in the use of monthly reporting and retrospective budgeting in the Food Stamp and AFDC programs.

Donald B. Roark,
(And 37 others).

[The following answers from Dr. Roark to written questions from Senator Helms were subsequently received by the committee:]

Question 1. What is the distinction that, in your assessment, apparently makes additional changes resulting in increased spending acceptable but changes resulting in reduced spending objectionable?

Answer. The assumption on which the question is framed is partially erroneous and suffers from generalization. All additional changes, some of which could be desirable, do not necessarily result in increased spending and a grab for more federal dollars as implied in the question. On the other hand, all changes resulting in reduced spending are not all objectionable, if they would be cost effective and not benefit reducing to the growing number of truly worthy recipients. Managerial and cost consciousness under the banner of antifraud, waste and abuse control have politicized the food stamp program to the extent that the service ethic of benefits to the poor and near poor are being sacrificed and partially jeopardized. Legislative mandates and regulatory directives have terrifically increased administrative costs and simultaneously reduced benefits under the managerial ethic.

New terms are quite often transparent and misleading, i.e. tax increases becomes revenue enhancement; quality control become expenditure control; benefit cuts become administrative simplification; and penalties become sanctions. Simplification and compatibility are not necessarily good and not mutually exclusive.

Question 2. You expressed objections to the new procedures requiring the use of monthly reporting and retrospective budgeting for certain food stamp households, and urging that this requirement be made optional at the discretion of each state. To what extent prior to January 1, 1984, when this provision was optional, did you use monthly reporting or retrospective budgeting?

Answer. Mississippi did not use or implement monthly reporting/retrospective budgeting to any appreciable extent prior to January 1, 1984 because we were using other more cost effective methods to deter and detect program violations without imposing additional administrative costs and paperwork burdens upon the administering agency and the recipients.

Question 3. As you know, the monthly reporting and retrospective budgeting requirement provides that states may seek waivers for categories of participants for which the provisions may not be cost effective. What groups of recipients are being maintained on monthly reporting/retrospective budgeting that you feel are not cost effective?

Answer. Yes, Congress has begun to recognize the cost ineffectiveness of monthly reporting/retrospective budgeting through passage of HB 4252 directing USDA to be cooperative with the states in approving monthly reporting waiver requests as long as the requests were on a reasonable basis.

Perhaps USDA has not been reasonable in processing and approving waiver requests under HB 4252 since several states have been notified by FNS that they are out of compliance. Whether or not monthly reporting/retrospective budgeting in food stamps is cost effective is highly variable in the states due to a complexity of factors, i.e. extent of computerization, staff caseloads, percentage of total population eligible for food stamps, etc.

Generally, monthly reporting/retrospective budgeting implemented under expanded waivers is not cost effective, is increasing errors, and creating havoc among recipients.

In Mississippi, which currently has absolutely no computerization in the food stamp program, we implemented monthly reporting/retrospective budgeting January 1, 1984 on an FNS approved, targeted household categories. Approximately 35 percent of our food stamp households are on monthly reporting. Large groups of recipients continue to appear at monthly meetings of the state welfare board and between board meetings with me as commissioner, demanding and pleading that monthly reporting/retrospective budgeting be ceased immediately. Senator, a recipient outcry against this administrative burden on recipients!

In our case, a household that has one member with earned income and recent work history is required to monthly report. Those that have stable earned income should be exempted. The problem in a rural state such as Mississippi is that many households have fluctuating and/or seasonal income, i.e. pulpwood cutters and haulers, fisherman, farm workers and industrial workers on piece payments. We have determined that it costs an additional $12.21 per monthly reporter just to process the paper work which experience is showing does not reduce errors and is counterproductive to the intent and theory of monthly reporting/retrospective budgeting. Recently, Senator Thad Cochran, a member of the Committee, met with a group of Hinds County employees and receipents regarding monthly reporting/retrospective budgeting and other matters. He is personally aware of the multi problems monthly reporting/retrospective budgeting imposes upon the state and our large number of participating households.

Question 4. What is the basis for your assertion that monthly reporting/retrospective budgeting is increasing errors in the food stamp program?

Answer. The FNS demonstration project of monthly reporting/retrospective budgeting on food stamps in Illinois, though not yet officially released, conclusively shows that not only did monthly reporting/retrospective budgeting fail to reduce error rates or benefit costs in the food stamp program—but benefit costs actually increased eight percent. Even more shocking, administrative costs skyrocketed, rising 20 percent.

In Mississippi, our error rate was right on target at seven percent when we implemented monthly reporting/retrospective budgeting January 1, 1984. Today, our error rate has climbed to 7.82 percent due to monthly reporting/retrospective budgeting implementation. Senator, that is cold, hard, factual information supporting my contention that monthly reporting/retrospective budgeting increases errors in the food stamp program.

Question 5. You noted the additional verification which is permitted quality control workers, but not for the initial food stamp caseworker. Would you support legislation to remove the existing restrictions on initial verification?

Answer. I support the concept of uniform verification by both food stamp eligibility workers and quality control workers. I doubt that legislation would be required for this particular problem as I believe it could be accomplished through regulatory guidelines.

This particular problem is just part of a larger problem—the quality control system on which sanctions are levied. State administrators have provided appropriate members of Congress with quality control system facts and have prepared legislative language that would put the quality control system on the right track by creating a uniform error measurement system for Medicaid, Aid to Families with Dependent Children and the Food Stamp Program. If errors detected through quality control and on which sanctions are based are to be reduced and controlled, we must be certain that errors are properly defined, identified, and measured. The current system of quality control fails in this regard.

We encourage legislation for a uniform quality control system for all income support programs.

Question 6. You seem to have objection to state costs associated with the error rate sanction system, the mail issuance tolerance system, 25% funding for computerization and what you believe to be increased costs for monthly reporting and retrospective budgeting? Aren't there any costs associated with this program that should be financed by the states?

Answer. That is a cleverly worded question in which you stated a preconceived opinion of yours couched in my concerns expressed in earlier testimony. Yes, there are and continue to be some administrative costs that should be financed by the states, and others that should be more adequately funded by USDA in this Congressionally mandated program.

More specifically, sanctions should not be based upon invalid estimates of real errors. Why should a state not object to unfair and invalid sanctions applied to administrative costs for which it is responsible and over which it has limited control? Many errors in the current quality control system are client errors, not administrative errors.

In the matter of mail issuance, the agency that mails stamps is responsible if they do not reach the recipient. We are willing to assume responsibility for errors and inefficiency but should not be penalized or sanctioned for the errors of others whom we cannot control and for thievery or inefficiency of others, including another government agency.

USDA financial funding in the development of computer capability for the national food stamp program is only 75% while the development costs of other support programs in HHS which are not nearly as national in scope are funded at 90%. We think USDA funding should be at least at the 90% level or higher.

Question 7. You indicated your strong opposition to legislation I have introduced, S. 1279, to permit states to establish an optional block grant in lieu of the food stamp program. I can understand if you decided in your state that the block grant concept was not appropriate. What I don't comprehend is how you would want to prevent some other states—that may be interested in the optional block grant from considering that approach, especially if state officials feel it is best for their citizens. Several states have already indicated such an interest. Why do you oppose the optional nature of the block grant?

Answer. I do not oppose the concept of options, freedom of choice, and flexibility to states unless it involves a major policy change.

I am strongly opposed to block granting of the food stamp program because:

(1) Blockgranting is a veiled shift and transfer of responsibility from a federally initiated and controlled program from the federal level to the state level.

(2) Blockgranting, even on an optional basis, would provide for the result in a multiplicity of food stamp programs based upon a state's ability to pay.

(3) Blockgranting would undermine and permit deviation from a nationally established policy on food assistance.

(4) Blockgranting contradicts the contention that you can't trust the states because it is all federal funds. How does blockgranting of 100 percent federal funds, no strings attached for the states to do with as they please, automatically make a state trustworthy and willing to protect the interest of taxpayers?

(5) Current practices are reducing errors and sanctions. Blockgranting would bring about poorer management and increased errors and would wipe out penalties and sanctions. In all probability, states with high error rates and sanctions or potential sanctions, would probably opt for blockgranting so as to escape fiscal sanctions and the political and management embarrassment they can cause state officials.

(6) Blockgranting a fixed amount of funds could result in extreme hardships during periods of economic stagnation and downturn, variable and increasing unemployment, disasters, etc. Benefits would have to be cut or taxes raised during economic uncertainties.

(7) The food stamp program responds closely to the economy and demographic changes. Therefore, it is not practical nor feasible to convert to blockgranting. This is one of the major reasons that the National Governors Association, the National Association of Counties, and the U.S. Conference of Mayors all oppose blockgranting in the food stamp program.

FRAC,
March 23, 1984.

Hon. Jesse Helms,
U.S. Senate,
Washington, DC.

Dear Senator Helms: Enclosed are various materials relating to food program issues under review by the Committee on Agriculture, Nutrition and Forestry. We understand some of these issues were discussed at a hearing before your committee on March 21. We are submitting these materials, which describe our position on various food program proposals, for the committee record.

Generally, we do not support any further reductions in food program funding. Eligibility and benefits for the federal food programs have been substantially restricted and reduced since 1981. At the same time there is a substantial body of evidence that large numbers of Americans are having difficulty obtaining a sufficient diet.

We are very concerned about recommendations to repeal the statutory provision regarding expedited service. Expedited service ensures that households in emergency situations will be able to obtain a nutritionally adequate diet. We understand that the repeal of the expedited service provision is being advocated because "it is no longer needed." At least one report alleges an average processing time period of 15 days in all cases. Based on our knowledge, we find it difficult to believe that report. We have heard from recipients and their representatives that delays in processing expedited service cases are quite common even in those states under court order mandating compliance with the statutory time periods. Recently Georgia was brought before the court on a motion for contempt. Even though the motion was settled between the parties after the state agreed to comply with processing standards, the state is still not in compliance.

The expedited service provisions allow verification of income to be suspended for the first month. Eligibility workers argue this factor increases their error rate. Yet, they can provide no empirical evidence to support this allegation. This is not surprising because quality control regulations specifically exempt expedited service "errors" from the state's error rate. Therefore, their argument is incorrect. Moreover, eligibility workers do not provide evidence of overissuances resulting from expedited service verification procedures. If overissuances do occur we suspect the average overissuance on an expedited service case is small. Households receive benefits prorated from the day of application to the end of the month and *cannot* receive the next month's food stamp benefits until all verification is submitted.

In short, expedited service is one of the more humane features of the Food Stamp Program. It should not be repealed because states cannot comply with the five day processing time frame. Instead the Food and Nutrition Service should provide technical assistance to states on management issues to ensure compliance.

We believe that the problem of hunger in America must be acknowledged and attacked. To that end, the Food Research and Action Center has joined with the National Anti-Hunger Coalition in initiating a campaign to fight domestic hunger. The components of that campaign are described in our enclosed testimony before the Presidential Task Force on Food Assistance. As you will see, this campaign can be financed out of existing federal revenues.

We urge you to give serious attention to these proposals. Thank you.

Sincerely,

Nancy Amidei,
Executive Director.

Enclosures.

Food Stamp Program—FY 1985 Budget

The Administration has proposed three cost-cutting measures in its FY 1985 budget recommendation for the Food Stamp Program:

Consider households in which all members receive AFDC automatically eligible for the Food Stamp Program, thereby simplifying administrative procedures: Estimated savings—$4 million.

Require a Community Work Experience Program (workfare) to be implemented in every state making able-bodied food stamp recipients "work off" their benefits as a condition of eligibility: Estimated savings—$85 million.

Make states responsible for total dollar amounts of food stamps overissued above a 3% error rate: Estimated savings—$503 million.

While total cuts to the program amount to $592 million, the projected "savings" are reduced to $374 million since food stamp benefits would be expected to increase as a result of proposed cuts in the AFDC program.

The proposal to make AFDC recipients automatically eligible for the Food Stamp Program is a commendable administrative simplification. The other two proposals would, however, create serious hardship.

COMMUNITY WORK EXPERIENCE PROGRAM

Under present law, "workfare" is an allowable option in the Food Stamp Program for any state or locality which chooses to implement such a program. Most areas have not elected to implement workfare, finding it administratively costly. The Government Accounting Office has estimated that workfare may cost $3 for every $1 it saves. A *mandatory* workfare provision would not only deprive state agencies of precious administrative dollars, but could create serious political difficulties in areas of high unemployment.

Unlike paid employment, workfare provides no wages, Social Security benefits, unemployment or workers compensation, sick time, vacation, opportunity to join a union or procedures for filing grievances.

ERROR RATE SANCTIONS

Present law requires states to achieve an error rate of 5% by FY 1985. States which fail to meet this level are subject to administrative sanctions.

Under the budget proposal, additional, and extremely harsh sanctions would be incurred by states. Not only is an error rate of 3% unrealistic, but this proposal would essentially shift costs from the federal government to the states. States are already making real efforts to reduce their errors; considering the complexity of the program and frequent amendments to it, they are reasonably effective.

New sanctions could remove so many resources from a state that the state would have insufficient resources to invest in new technology and other systems needed to reduce errors in future years. Also, since only overissuances count against a state, this system could lead to oral denial of benefits or issuance of inadequate or lower benefits to recipients just to hold down errors.

Older Americans Act—FY 1985 Budget

The Administration's FY 1985 Older Americans Act budget would hold nutrition and supportive services at their present levels, despite inflationary increases in recent years. Although funds for Congregate Meals, Home-Delivered Meals, Supportive Services and State Administration are reduced by a combined total of $1.4 million, the Administration on Aging attributes this decrease to an altered arrange-ment with several of the trust territories (such as Micronesia and the Marshall Islands).

Undaunted by Congressional rejection in previous years, a consolidation of funds is again being proposed. This block grant approach has serious ramifications for the future of senior meals programs.

The Administration's budget proposal would consolidate funds for Congregate Meals, Home-Delivered Meals, Supportive Services and State Administration (presently each has a separate appropriation under Title III of the Act) with commodity or cash-in-lieu-of funds presently disbursed by the U.S. Department of Agriculture.

Consolidation of funds into a block grant would weaken the nutrition programs for the elderly. States would have more flexibility in the allocation of funds, and in harsh economic times administrators simply do not have adequate resources to meet the need of all who require services. Maintaining separate appropriations for Congregate and Home-Delivered Meals insures that a minimum amount of funds will be spent on these essential services.

Also, the method by which per-meal reimbursement funds (presently distributed by USDA as cash or communities) would be allocated under a shift to the Administration on Aging has not been clarified. It is crucial that the per-meal reimbursement (56.5 cents a meal in FY 1984) be retained. This method insures that service providers have an incentive to serve as many meals as possible.

The budget proposal would also drastically cut research and training funds and would alter the funding pattern of the Senior Jobs program, presently administered by the Department of Labor.

Only grants to Indian tribes would receive an increase in funding.

[In millions of dollars]

Program	Fiscal year— 1984 Appropriation	Fiscal year— 1985 Proposal
Congregate meals [1]	$321.574	$320.892
Home-delivered meals [1]	62.025	61.894
Commodities-or-cash [1] [2]	116.000	116.000
Supportive services and senior centers [1]	240.869	240.362
Senior jobs [3]	319.000	317.000
State administration [1]	21.673	21.598
Grants to Indians	5.735	7.500
Research and training	22.175	5.000
Total (billion)	1.109	1.090

[1] To be included in one funding unit of $760.746 million for FY 1985.
[2] Presently funded by USDA.
[3] Funded by the Department of Labor.

TESTIMONY OF THE FOOD RESEARCH AND ACTION CENTER

(Presented by Cynthia G. Schneider, Staff Attorney, Before the Presidential Task Force on Food Assistance, Boston, MA, December 2, 1983)

My name is Cynthia Schneider; I am a staff attorney with the Food Research and Action Center (FRAC). Established in 1970, FRAC is the only public interest law firm and advocacy organization working with the poor and near poor to alleviate hunger in the United States. With a staff of attorneys, lobbyists, nutritionists and organizers, FRAC manages a broad program of litigation and supportive legal services, legislative and administrative advocacy, public education, and the provision of training and technical assistance to state and local organizations concerned about hunger. FRAC also conducts research, analysis and public information projects on a variety of nutrition issues. FRAC assists school boards and parent groups to make sure that federal monies are used as efficiently as possible to provide nutritious food for pre-school and school-age children.

We appreciate the opportunity to appear before members of this Task Force today to offer specific recommendations for alleviating hunger in the United States. Our comments will be confined to specific improvements in the federal food assistance programs.

But before we address this issue, it is important to note that there is a connection between hunger and poverty, and the poverty rate has now risen to 15 percent. Only people with inadequate incomes are likely to find themselves unable to purchase enough food to prevent hunger. The anti-poverty programs which are presently in place do not reach all people in need and do not provide benefit levels high enough to allow those they do reach to escape poverty.

In no state do the combination of Aid to Families with Dependent Children (AFDC) and food stamp benefits come up to the federal poverty line. In half the states, two-parent households are ineligible for AFDC regardless of employment status or income level. In no state is a single person who is not elderly or disabled eligible for cash federal welfare payments. There is, in fact, not a "safety net" which keeps all our citizens from experiencing poverty and lack of basic necessities.

Critics of the welfare system contend that the poverty count is overstated by failure to include in-kind benefits such as food stamps, housing assistance and medical assistance. Inclusion of such payments and subsequent lowering of the poverty count would only provide a false sense of accomplishment as to how well we, as a country, are meeting the needs of our citizens.

Such "playing with statistics" would in no way change the plight of the poor; it would only deny their existence. To count housing and medical assistance would be particularly misleading.

Without medical assistance most low-income people would be forced to go without needed medical treatment. Even today, there are cases in which pregnant women arrive in the hospital for delivery having received no pre-natal care. Government programs which allow people to take care of their health are not comparable to disposable income.

Without housing assistance poor families would not have the resources to provide comparable housing for themselves. Rather, they would be compelled to live in substandard conditions, seeking abandoned, unheated buildings or crowding several families into small quarters. To count the value of decent, subsidized housing or quality medical care as disposable income would imply that poor families have more available resources to meet other basic necessities than is actually the case.

Despite the above-mentioned deficiencies in anti-poverty programs, there are positive factors to mention regarding food assistance programs. The federal food assistance programs were designed for the expressed purpose of combatting hunger and poor nutrition among the residents of our country. Until the past three years these programs had been fairly successful in accomplishing their mission. Unfortunately, that is no longer the case. Excessive budget cuts in federal food programs were enacted, purportedly, to target services to the "truly needy" and to eliminate waste, fraud and abuse. In fact, they have made the programs so restrictive that large numbers of poor people are no longer able to particiate and benefit levels are so inadequate that many poor families are forced to choose between eating and heating their homes, eating and seeking needed medical care, or they must go without food so that their children may eat.

The hardships caused by deep cuts in federal food programs were exacerbated by simultaneous cuts in other federal assistance programs designed to help low-income persons: Aid to Families with Dependent Children (AFDC), low-income energy assistance and subsidized housing programs, to name a few. At the same time we began to suffer from a harsh recession. Many families facing unemployment, often for the first time, found that although they could not provide for their families' needs once their unemployment benefits were depleted, they were not eligible for government assistance.

The private sector has undertaken a Herculean effort in trying to assure the nutritional needs of families and individuals who are unable to provide for themselves. A tremendous number of new soup kitchens and food pantries have opened their doors in the past two years. The lines at these emergency centers have mushroomed and, in most cases, the doors have had to close before all those seeking assistance could be served because food supplies had been depleted.

The private sector simply does not have the resources to replace the billions of dollars which have been cut from federal assistance programs. Only the public sector can ensure that the basic needs of its citizenry be met.

Despite the extraordinary cuts in programs designed to help the poor, we have not reduced the federal budget or its deficit. Rather, the nation's priorities have shifted from meeting a diversity of needs to concentrating on the build-up of excessive military resources. Federal social programs are not and never have been "busting the budget." We have the resources to restore these much needed programs, if only we would redirect our spending priorities.

FRAC's organizational mission is to ensure that all Americans have access to an adequate diet and, as a means to this end, we have long advocated for the federal food assistance programs. We are deeply distressed to see hunger reemerge as a problem in this country, and believe that one very important step toward eliminating this problem is to improve the federal food programs. This statement will detail how we believe each of the federal food assistance programs could be improved. If these suggestions are implemented we will make major progress toward ending domestic hunger, a problem which should not exist in a country with resources as plentiful as ours.

FOOD STAMP PROGRAM

The Food Stamp Program is the largest federal food assistance program, serving nearly 22 million low-income people. When this program was fully implemented nationally it became highly successful in preventing hunger among the poor. But in the first two years of the Reagan administration this program was cut by what the non-partisan Congressional Budget Office has estimated will be $7 billion in fiscal years 1982 to 1985. These cuts have restricted eligiblity so severely that many poor families can no longer be served, and have made benefits so meager that most people on the program run out of stamps well before the end of the month.

Therefore, the two most important improvements in the Food Stamp Program which should be instituted immediately are to (1) make program eligibility less restrictive, and (2) increase benefit levels.

A FRAC study of persons seeking emergency food assistance found that about two-thirds of those surveyed were already receiving food stamp benefits. Over three-fourths of these persons had depleted their benefits by the second or third week of the month. These figures tell us that food stamp benefits are inadequate by about 25 percent. Consequently, a reasonable goal for improving the Food Stamp Program would be to supplement current benefit levels by 25 percent for every recipient. (A copy of our study, "Still Hungry," is attached for the record.)

Even this measure would only raise the average food stamp benefit from about 47 cents per person per meal to about 59 cents per person per meal.

Rescinding a number of recent program changes which reduced benefits would also improve the effectiveness of the Food Stamp Program. For example, the Thrifty Food Plan, the U.S. Department of Agriculture plan upon which food stamp benefits are based, is no longer frequently updated to keep pace with increases in actual food prices. In addition, when it is updated, it is at a level one percent lower than actual food price increases. We recommend that the Thrifty Food Plan be updated once a year, and that the 1 percent cut be permanently restored.

Another measure which reduced benefits for food stamp recipients was a reduction in the allowable deduction for work related expenses from 20 percent of earned income to 18 percent. This change hurt the working poor who were trying to reduce their dependency on federal assistance by holding a job. The 20 percent earned income deduction should be restored.

Other benefit increases could be accomplished by allowing separate deductions for shelter costs which exceed the family's income by 50 percent after all deductions have been taken and for dependent care costs. Presently (except for households with an elderly or disabled member) the combined limit on these two deductions is $125 a month. Allowing each deduction to be counted separately at a maximum of $125 a month would more accurately reflect the true needs of a household and hopefully prevent benefit levels from being inadequate. These deductions, like the Thrifty Food Plan, should be evaluated annually so that benefits can keep pace with food prices.

The above recommendations would help make food stamp benefits more adequate, but do not address the other critical issue—making eligibility less restrictive. In 1981 about one million working poor were cut off the food stamp rolls due to the institution of a gross income eligibility test. A household may not have income above 130 percent of the poverty line, even though they may have a very high expenses. Households must also meet a net income eligibility test under which household income must be below the poverty line after all allowable deductions have been taken. It is administratively burdensome to require two income eligibility tests. Elimination of the gross income test would allow those with high expenses and moderate incomes to once again participate in the program. Benefits would still be targeted only to persons with accessible income below the poverty line.

The Food Stamp Program scrutinizes assets as well as income. The unrealistically low assets test prevents many newly unemployed households from participating in the program. A household may not have over $1500 in assets, even if there is a penalty attached to cashing it in and converting it into cash. This level was set in 1971 and has not been updated for inflation in twelve years. (The only exception is that households with two or more members, one of whom is elderly or disabled may have up to $3000 in assets.)

Families with a newly unemployed wage earner may still have some resources, but may want to apply for food stamps before depleting these funds. Food stamps are not usually issued until 30 days after application. By this time resources may have been depleted. Unemployed families with an adult male present are not eligible for AFDC benefits in most states. Once unemployment benefits have been used up these families often are not eligible for any form of cash public assistance. They may need to stretch savings over several months until a new job can be found. It is not unreasonable for a family in this situation to want to set aside 2 or 3 rent or mortgage payments to prevent eviction or foreclosure until new income is found.

Over three-fourths of all households on the Food Stamp Program have NO countable resources, and an astonishing 96 percent of all households have fewer than $500 in resources. Clearly, the vast majority of persons with poverty line incomes do nct have large amounts of money stored away in the bank.

We recommend raising the assets limit to $2650 for non-elderly or disabled households. If this level were to be fully updated it would come to $3569. The intermediate level would offer some immediate relief to newly unemployed households. In the future, the assets limit should be adjusted annually, based on increases in the Consumer Price Index.

Another barrier to participation for the newly unemployed is the limit on the value of a vehicle. Currently a household with a car valued over $4500 may not paricipate in the Food Stamp Program if they have also reached the resource limit. Car value over $4500 is applied to the assets test, so that a household with a vehicle worth $6000 and not a penny in their pockets could still be eligible for food stamps. But a newly unemployed person is more likely to have bought a car in the past few years and is more likely to still have some cash on hand.

During hard economic times it may be impossible for a family to get a fair market value for its car, and transportation may be needed to search for a new job. The ceiling on car value was set in 1977 and has not been updated in six years, despite rising automobile prices. We recommend that the vehicle limit be raised to $6500. (If the Consumer Price Index were used allowable car value would now be $7700.) Raising this limit would allow many of the unemployed to recieve federal food assistance until they found new jobs.

An additional change in the Food Stamp Program which both eliminate many persons from the rolls and reduced benefits for many of those remaining has to do with the concept of a "household." In the past, groups of persons living under the same roof but maintaining separate economic units were accorded separate household status. Each unit was required to meet income and assets guidelines and benefits were then based on the number of members in the group.

Now, any parents, children or siblings who live together, regardless of whether they maintain separate household accounts and purchase food and prepare meals separately, are required to be treated as a single household unit. (The only exception involves elderly or disabled parents who are allowed to declare separate household status.) During the hard economic times we are currently experiencing many families have had to move in together to save on shelter costs. By doubling up, many families may exceed income or asset limits making them ineligible for food stamps. Those who remain eligible have their benefits reduced, as the program bases allotments on economies of scale—larger households get proportionately smaller benefits.

We advocate a return to the concept of an economic unit. This way, families who do, in fact, share expenses and purchase food together would be treated as a single household unit. Those in which independent household accounts are maintained would once again be allowed to participate in the Food Stamp Program as separate units.

One group of persons which has historically been underserved by the Food Stamp Program is the elderly. It has been estimated that only about half of the elderly who are eligible for the program actually take part, despite attempts to remove barriers to participation. Many older people are especially sensitive to what they perceive as a stigma attached to accepting "welfare." Use of food stamp coupons which identify one as a recipient of public aid may deter many older persons from participating.

In recognition of this fact, Congress authorized states to implement pilot programs under which recipients of Supplemental Security Income (SSI) could receive the amount of their food stamp allotment in cash. Very few states took advantage of this option which has now been withdrawn. To facilitate participation by the elderly, such options should be examined and made easy for states to implement. The Food Stamp Act should be amended to allow states to provide cash food stamp benefits to Social Security and SSI recipients.

In 1981 federal funds were eliminated for outreach in the program. Such funds should be restored so that people can be made aware that they may be eligible. FRAC's survey of food pantries indicated that many people poor enough to turn to emergency sources to feed themselves and their families were not aware that they might be eligible for food stamps. Also, a 1982 study by the Georgia Department of Human Services speculated that one reason for the failure of food stamp participation levels to increase during a time of rising unemployment could be due to the abolition of the food stamp outreach program combined with widespread publicity of the 1981 cuts in food stamp program funding.

Another serious problem in the Food Stamp Program is a shortage of staff to administer daily program functioning. The combination of an extraordinary number of program changes in the past 3 years (over 100 new regulations were issued in the Food Stamp Program between 1981 and the present) and hiring freezes in many states have caused caseworkers to carry extremely heavy work loads. As a result, they are more likely to make errors, more likely to cause delays in timely issuance of benefits (often in violation of Federal law) and, in general, are more likely to be overworked.

We recommend a significant amount of additional funding be allocated for improved staffing. This would improve program administration, help states reduce their error rates and also would create new jobs. The additional functions which could be served by increased staffing should address the following issues:

Points and Hours—In order in ensure adequate access to the program food stamp offices must be open enough hours for clients to be able to schedule appointments when they can arrange child care or during hours when they are not working. There also must be enough accessible locations.

Manual Issuance—Persons without a fixed address must be given the opportunity to pick up their food stamps in person. In order to do so there must be staff allocated to conduct manual issuance of stamps with enough frequency so as to be meaningfully accessible to homeless persons.

Bi-lingual Provisions—It is very important that areas with large numbers of non-English speaking persons have bi-lingual materials and staff to ensure adequate program access.

Outreach—Additional staffing funds should also be used to conduct thorough outreach activities.

SCHOOL MEALS

The School Lunch Program was enacted in 1946 after the Surgeon General testified that 70 percent of men who had been rejected for the draft during World War II had suffered from malnutrition as children. The Program was enacted "as a measure of national security" as well as a way of promoting the consumption of nutritious agricultural commodities.

The Program now operates in schools nationwide serving low-income children who receive a free or reduced-price meal as well as non-needy children who support the program by paying full price for lunch. The federal government assists schools in operating the program by also providing a subsidy to the school.

The School Breakfast Program was added as a pilot in 1966 and serves predominantly low-income children who might often go without a nutritious breakfast were it not for this program.

Both programs were severely cut in 1981—the lunch program by 30 percent; the breakfast program by 20 percent. First of all, these cuts caused many schools to discontinue participating in breakfast and/or lunch programs due to drastically reduced subsidies. This has meant that in many schools, no matter how poor the children, nutrition assistance is no longer available. Then, eligibility levels were restricted, making it harder for poor children to receive a free or reduced-price meal. Also, those eligible for reduced-price meals now must pay a higher fee for those meals and the full price of meals has risen in most localities. (The average price increase for lunch between schools years 1980-81 and 1981-82 was over 16 cents a meal.)

Legislation has passed the House of Representatives by a three to one margin which would begin to make some improvements in child nutrition programs. This legislation is but a start; these and other improvements are needed. We recommend the following changes, some of which are restorations of earlier program cuts.

1. The reductions in federal subsidies to schools to help them operate meal programs has been one of the greatest barriers to child nutrition. This one factor contributed to over 2,700 schools dropping out of the federal lunch program following the first year of budget cuts. As a result, 3.5 million children, 40 percent of whom were low-income, are denied the essential nutrition assistance the program provides.

One way to alleviate this problem would be to provide special funds to school districts serving at least 40 percent low-income children. It is crucial that these districts, which are likely to be supported by smaller tax bases than more affluent areas, not find themselves unable to underwrite the costs of running school meals programs. It is the low-income child who is most likely to suffer poor nutrition if deprived of a well-balanced school meal.

2. Presently the eligibility level for reduced-price meals is family income at or below 185% of poverty. We recommend a return to reduce price meal eligibility of 195% of poverty. Many families with modest incomes may not be able to afford the full price of a school meal which in some cases may cost close to or over $1.00.

3. Revise the cost of reduced-price lunch from 40 cents to 25 cents (previously the cost was 20 cents) and the cost of reduced-price breakfast from 30 cents to 15 cents. Present costs may be prohibitive for families with border line incomes.

4. Changing free meal eligibility from income at 125% of poverty plus a standard deduction of $80 a month to a straight level of 130% of poverty actually lowered the eligibility guideline for poor families and caused some families to lose eligibility for free meals. To compensate for the loss of the standard deduction, an income level would have to be closer to 135% of poverty to serve the same number of needy families. Administration of the eligibility guideline would still be easily accomplished, and children from families with very modest incomes would have the opportunity to receive free lunches.

5. Add funds to improve the school breakfast meal pattern. Currently school breakfasts must provide bread or cereal, milk and juice. The nutritional value of breakfast could be improved by adding a higher protein component such as egg or cheese.

6. Exclusion of certain medical expenses from income could help some families with marginal incomes and very high medical expenses to participate in free or reduced-price school meals. Also, a "special hardship" deduction could be reinstated for families with very high medical, shelter or other expenses.

7. A great improvement could be made in the School Breakfast Program by encouraging schools serving lunch to 40% or more low-income children to implement a School Breakfast Program. While about 23 million children receive a school lunch, only about 3.5 million receive school breakfast.

This is because most schools choose not to administer this program. The great majority of school breakfast participants are low-income (about 90%). School districts which do implement the program find that administrative difficulties are, in fact, minimal. Measures which would result in wider implementation of this program could have a very beneficial impact on both the nutritional status and educational performance of low-income children. One means of accomplishing this goal would be to provide federal "severe need" payments to schools required by state mandate to have breakfast programs. This assurance could encourage states to implement such a mandate. Another approach would be for federal law to require school districts serving lunch to 40% or more low-income children to serve school breakfast as well.

8. Another improvement would be to provide schools that are in economically disadvantaged areas with some federal assistance in the purchase and repair of equipment needed to run a meal program.

OTHER CHILD NUTRITION PROGRAMS

There are also several small child nutrition programs which could be improved in order to better prevent hunger in the United States.

1. The Child Care Food Program serves nutritious meals to children in day care centers and family day care homes which are predominantly low-income. Children may be in such day care arrangements for a full day, and, in the past, day care providers could be reimbursed for three meals and two snacks a day. Now they may only be reimbursed for two meals and one snack a day.

Poor children of working parents could be greatly aided by a resumption of the five meal reimbursement pattern. Parents earning minimal incomes may not be able to continue working and paying for child care without full provisions of meals for their children during the day.

2. The Summer Food Program provides lunches to children during the summer when school is not in session. Locations are to be in low-income areas and, as such,

may prove very important to poor children. Formerly meal sites could be located in schools, government or non-profit agencies, but non-profit organizations are no longer allowed to sponsor summer food programs. In some areas, this has meant the program no longer operates. The former guidelines should be restored to prevent harmful effects on poor children during the summer months.

3. The Special Milk Program serves milk to children as a nutritional supplement. At present the program is only allowed to operate in schools which do not operate a school breakfast or lunch program. The Special Milk Program could be improved by allowing kindergarten children, who generally do not participate in school breakfast or lunch, to receive milk, regardless of whether or not the school participates in other nutrition programs. This small assistance could benefit children who need to consume quantities of milk during their formative years.

SPECIAL SUPPLEMENTAL PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

The WIC program is an extremely helpful nutrition assistance program which serves pregnant women, nursing and post-partum mothers, infants, and young children up to the age of five. Participants must be both low-income and diagnosed as being at nutritional risk. This program has been proven effective in preventing high medical costs associated with poor nutrition during pregnacy and infancy and has an excellent track record in improving pregnacy outcome by preventing low birth weight babies—a leading factor in infant mortality.

Yet this successful and cost effective program serves only about 30 percent of the eligible population. Great strides should be taken to move this program toward entitlement status which would remove the cap on participation levels. The program prescribes especially nutritious foods which are needed during critical stages of development. Now states must maintain waiting lists and eligible persons often must wait weeks for service, possibly endangering their health. Pregnancies are put "on hold" and infants' and children's nutritional needs are ignored.

The WIC program is not only a food assistance program; it is a combined food and health program which is largely responsible for its success. As a result, the WIC program cannot reasonably be expanded in isolation from other necessary improvements in the public health clinic network. Funds which would be used to expand WIC caseloads must be matched by funds to expand clinic capacity—both space and staff. Budget cuts in the Maternal and Child Health Block Grant and other related programs have contributed to the WIC program's inability to serve a larger percentage of the eligible caseload.

The USDA has recommended an "equity" plan under which states would serve equal percentages of their eligible populations. We recommend that such a suggestion only be considered with a "hold harmless" provision. Additional funds should be provided so that all states would, at minimum, be able to serve the current national average of 35% of the eligible population, without causing states presently serving a larger percentage to reduce service.

Then, through a combined greater support of the network of maternal and child health programs, we would support increased funds to simulatenously expand clinic capacity and WIC caseloads.

If entitlement status is not granted to the WIC program, other program improvements should be allowed. States should be able to carry over a small percentage (1% to 2%) of food and administrative costs to help states maintain caseload stability from one fiscal year to the next. Currently all unspent funds must be returned to USDA which in some cases leads to underspending of available funds.

Another program improvement would be to provide funds to better coordinate the WIC program with other maternal and child health programs. Provision of additional funds for the Maternal and Child Health Block Brant (MCH) Program and Early and Periodic Screening and Diagnosis Treatment (EPSDT) Program could offset some of the costs associated with the administration of WIC clinics.

All the child nutrition programs, including WIC should have funding specifically earmarked for outreach. Only when eligible persons are aware of the existence of federal programs do they have reasonable access to participation.

NUTRITION PROGRAMS FOR THE ELDERELY

We mentioned earlier that older people do not participate in the Food Stamp Program in their proportion of need. There are two other federal nutrition programs designed specifically to target nutrition assistance to the elderly—Congregate and Home-Delivered Meals. These programs, which are part of the Older Americans Act, are open to all elders age 60 and older, but are directed by law to target services to those with the greatest social and economic needs.

Unfortunately, like the WIC program, the senior meals programs are not entitlements, and most service providers are forced to maintain waiting lists. These programs receive only a small amount of federal funding and are nowhere able to reach all those who desire services, or even all of the low-income seniors who request service. The programs also, in most cases, serve only one meal, five days a week, and in many cases even less frequently.

Yet these programs serve an important function in providing a nutritious meal to seniors who may need both companionship and nutrition assistance. In some cases older persons may not be able to physically prepare meals, and in other cases may not have the income to be able to feed themselves well. Federal law directs the states to serve persons who are in the greatest need. But low-income and minority persons are not being served in their proportionate need.

An important program improvement would be to add additional funds which could be used to expand participation by low-income and minority seniors. In testimony before the Senate Committee on Labor and Human Resources it was suggested that if federal funds were directed to states on the basis of proportion of population over 60 (current law) and proportion of population over 60 in poverty this would be a very effective means of targeting resources effectively to the most needy. In order for states to be "held harmless", however, it would require $700 million, or 130% over the current level of funding. This makes clear how inadequate the present level of funding is, and how great the need is to better serve the low-income elderly.

We recommend additional funding for the purpose of opening additional senior meal sites in low-income neighborhoods which are, at present, underserved, and expanding capacity at present sites which serve low-income areas. Funds should also be directed to expanding home-delivered meals to low-income seniors and to expanding active outreach activities to identify older persons at nutritional risk.

CONCLUSIONS

In conclusion we would like to stress that it is our belief that only an infusion of funds into the federal food assistance programs can begin to do the work necessary to alleviate hunger in the United States. Hunger has emerged as a serious problem in our country in the past two years as a clear effect of excessive cutbacks in federal food assistance and other social programs. If we are to preserve our nation's health, funds must be channeled back from the overgrown military budget into necessary social programs and the creation of jobs and job training programs so that, in the future, fewer citizens will need to depend on federal largesse for survival.

Just a two percent efficiency reduction in the military budget would provide $5.5 billion which could fund all the program improvements outlined in this statement. If the members of the Presidential Task Force on Food Assistance are serious about seeking solutions to the problem of hunger, we urge you to consider our recommendations and advise the President to implement them expeditiously.

(The Office of Auditor General of the State of Florida concluded an audit of the food stamp program in that State for the month of February, 1983, which was released on March 13, 1984. That report is printed below.)

Pursuant to Section 11.50, Florida Statutes, this Office's Division of Public Assistance Fraud, with the cooperation of the appropriate program segments in the Department of Health and Rehabilitative Services (DHRS), has made a review of the Food Stamp Program in Florida. The purpose of this review was to determine the amount of probable fraud and/or error that existed in the Food Stamp Program for the randomly selected month of February, 1983. More details relative to this are set forth in the "Purpose and Scope" section of this report.

The "Program Overview" section beginning on this page provides general summary information concerning the Food Stamp Program, as well as selected specific information concerning the Food Stamp Program in Florida. Section 409.275, Florida Statutes, provides the authority for the program in Florida.

ADMINISTRATION OF FOOD STAMP PROGRAM

The Department of Health and Rehabilitative Services is designated under the provisions of Section 409.275, Florida Statutes, as the Florida state agency responsible for the administration and operation of the Food Stamp Program, as authorized by the Congress of the United States. Within the Department of Health and Rehabilitative Services, the actual field operations of the Food Stamp Program comes under the auspices of the various District Administrators. At the State office level, the district operations organizationally come under the Office of the Assistant Secretary for Operations. During the period covered by this review, Mr. Fred Baldwin was the Assistant Secretary for Operations.

The Department's Food Stamp Program planning, policy promulgation, etc., is provided under the Assistant Secretary for Program Planning, Economic Services Program Office. During our review period, Ms. Mary Loepp was the Staff Director of the Economic Services Program Office, and Mr. Larry Overton was the Assistant Secretary for Program Planning. Further, Mr. V. Sheffield Kenyon was the State Food Stamp Program Administrator in the Economic Services Program Office for the review month (February, 1983).

PROGRAM OVERVIEW

GENERAL: The nationwide Food Stamp Program, as we know it today, stems from the food assistance programs of the depression years when farmers had surplus foods they could not sell. As an aid to both farmers and consumers, the Federal Government intervened to provide those surplus food commodities to needy people. Therefore, in its inception, the Federal Food Assistance Program to low income families was closely tied to, and largely dependent upon, commodities acquired under the farm surplus removal and price support activities managed, or supervised, by the U. S. Department of Agriculture. Even though the Food Stamp Program initially was closely tied to the commodities distribution program, it should be noted that the current program is different in many respects. The main difference is that food stamps are a "medium of exchange". Accordingly, stamps can be exchanged and/or bartered more easily than surplus food commodities.

Between 1961 and 1964, the U. S. Department of Agriculture operated a pilot Food Stamp Program, and in August 1964 a Food Stamp Act was passed by Congress. Under the original act, participation in the program by states and localities was elective, and the funding levels permitted only a gradual expansion of the program over a period of years. In 1969, the Food and Nutrition Service (FNS) was created within the U. S. Department of Agriculture. This agency was created to concentrate exclusively on the administration of the federal food programs. At the Federal level, the Food Stamp Program comes under the FNS.

By May 1970, substantial modification had been made in the Food Stamp Program. These modifications, among other things, increased the available level of Federal financial assistance and made more people eligible to receive such assistance. The Food Stamp Program, by the end of 1974, became a nationwide program operating in all states; Guam, Puerto Rico, and the Virgin Islands. Since that time, the Program has continually expanded with designed program outreach efforts.

SPECIFIC: In Florida, the Food Stamp Program is administered by the Department of Health and Rehabilitative Services. Prior to February 1972 the State's Food Stamp Program existed in only 20 of Florida's 67 counties. During the period of February, March, and April 1972, the remaining 47 counties were phased into the Food Stamp Program. Therefore, since May 1972, the Food Stamp Program has been on a statewide basis in Florida.

In the Food Stamp Program, a household receives food stamps which are made available with the expressed intent to aid in purchasing a nutritionally adequate diet. The available food stamps are intended to be used by the recipients in authorized grocery stores for purchasing food or food products for human consumption. The value amount of food stamps received by an individual household, or individuals, are based on adjusted monthly net income. The adjusted net figure is that portion of the income which remains after all allowable exclusions and deductions permitted by Federal regulations have been made. Allowable exclusions and deductions include, but are not limited to; infrequent or irregular income, earnings of students under age 18, and child care and shelter expenses up to an established maximum.

The financing of the Food Stamp Program is as follows. The Federal government pays for the entire value of the food stamps, plus 50 percent of the States administrative costs excluding costs of fraud investigations and prosecutions. In Florida, the State pays the remaining 50 percent of the administrative costs. The Federal Government pays 75 percent of the authorized cost for Food Stamp Program fraud investigations and prosecutions with the State paying the balance.

PURPOSE AND SCOPE

The purpose of our review was to determine the prevalence of fraud and error that might exist in connection with the allocation of food stamps to recipients during the month of February, 1983. By making this determination, a comparison could be made that would signify any change from the probable fraud rate results of a previous review made by this Office for the month of November, 1979. The results of that review were indicated in this Office's report number 9704 issued on July 16, 1980. Approximately three-years elapsed between these reviews which would allow the Department of Health and Rehabilitative Services time to realize the effects of "Corrective Action Plans" that had been implemented to strengthen the management of the Program.

Our sample universe included 312,833 Florida households that received food stamps valued at $38,456,560 for the review month of February, 1983. By the use of random sampling techniques, each of the 312,833 food stamp cases receiving benefits in February, 1983 had an equal opportunity of being selected for our review. Accordingly, the results of our review can be projected over the entire sample universe in accordance with generally accepted techniques.

To obtain the desired results of a 95% level of confidence with acceptable approximate sampling reliability for a projectable sample, 335 food stamp cases were selected at random from throughout the State. After our random sample of cases was selected, the following steps were carried out:

1. Case records associated with each household were reviewed.
2. Contact was made with the food stamp recipients to begin the independent verification process.
3. The preselected eligibility criteria was validated by use of collateral sources and/or independent observations.

The preselected eligibility criteria examined and verified for this review were limited to:

1. Household composition.
2. Verification of residence.
3. Resources (bank accounts, automobiles, property, etc.) available to household.
4. Available household income.
5. Claimed or budgeted expenses.

Upon completion of each case in our review, the Department of Health and Rehabilitative Services was provided any information we obtained which was in contradiction to information recorded in the food stamp case records. In addition, the cases of probable fraud were forwarded to the respective State Attorney's Offices after evidential material was gathered, for prosecutorial decisions.

The field work for this review was conducted during the months of April, 1983 through September, 1983.

FINDINGS

GENERAL: Out of the 335 cases selected for review, we determined that 235 of the cases were correct relative to the amount of food stamps issued. The remaining 100 cases contained probable fraud or had overissuance and/or underissuance of food stamps caused by errors. The errors were made by DHRS employees administering the Food Stamp Program and/or by the recipients of the Program benefits.

As a part of the Performance Reporting System mandated by the U. S. Department of Agriculture, each State is required to conduct quality control reviews. The results of these reviews are used by U.S.D.A. to sanction states that have high error rates. In arriving at these rates, States are directed to use only errors where an overissuance or underissuance amount exceeds $5.00 to eligible households. Accordingly, in identifying errors for this review, the same guidelines were used.

Appropriate statistical projections for 312,833 food stamp cases in our review universe for February, 1983 and the related dollar value of $38,456,560 are set forth in ensuing paragraphs. All projections are at a 95% level of confidence, and accordingly, approximate sampling reliabilities are set forth with each projection described in the ensuing paragraphs.

PROBABLE FRAUD: The review produced 34 cases where the recipient of benefits apparently misrepresented a material eligibility factor and as a result received part or all of their food stamp benefits because of the misrepresentation. This equates to a projected probable fraud rate of 10.2% for the review month. This projection, as previously stated, is at a 95%

level of confidence, with approximate sampling reliability of plus 3.9% and a minus 3.2%.

When projecting the 10.2% over the universe of 312,833 food stamp cases, for the review month of February, 1983, it would mean that 31,909 cases in that month contained probable fraud. That is, 31,909 cases received part or all of their food stamp benefits because of the apparent intentional misrepresentation of material facts which affected the amount of food stamps the recipients were eligible to receive.

The projected dollars associated with the approximate 10.2% fraud rate was $2,921,954. This equates to 7.6% of the $38,456,560 total issuance for the review month of February, 1983. The projected dollar benefits provided to recipients because of probable fraud had an approximate sampling reliability of plus or minus 3.1%. The $2,921,954 associated with the probable fraud rate of 10.2% is for one month (February, 1983) only. In as much as our review was related to food stamp issuances, for February, 1983 only, an annual projection of food stamp program values lost due to fraud in Florida can not be made with specified confidence levels and sampling reliability.

A summary of the reasons for the 34 cases of probable fraud identified in our review and which resulted in the 10.2% fraud rate projection are as follows:

REASON	NO. OF CASES	PERCENT OF TOTAL CASES
Incorrect reporting of individuals or household members' income	20	58.8%
Household members claimed did not exist or were incorrectly reported	9	26.5
Assets available to the household members were incorrectly reported	4	11.8
Household expenses were incorrectly reported	1	2.9
Total Probable Fraud Cases	34	100 %

To our knowledge there is not any documented data that would support valid conclusions as to how Florida compares with the rest of the nation in terms of losses relative to actual fraud in the Food Stamp Program. In other words, there has not been a nationwide study for a given period to determine the rate of fraud in the Program. Accordingly, there is no reason to believe that Florida is any better, or any worse, than the rest of the nation relative to fraud in the Program.

ERRORS/OVERISSUANCE: Our review identified 46 sample cases where recipients received all, or part, of their food stamps because of errors. Of these 46 error cases, 21 were related to DHRS employees not properly handling available data in determining eligibility for the food stamp issuance amount. The remaining 25 error cases were caused by the recipient of the program benefits. These errors were not of such nature that they could be classified as probable fraud.

The 46 error cases, out of the 335 sample cases, projected to a 13.7% error rate involving a projected amount of overissuances equal to $2,391,538 for the review month. As previously stated, all projections are at a 95% level of confidence and the 13.7% error rate is projected with approximate sampling reliability of plus 4.2% and minus 3.5%. The $2,391,538 is projected with approximate sampling reliability of plus or minus 2.3%. This overissuance value of $2,391,538 because of errors is for only the review month of February, 1983.

Reasons for the errors that resulted in overissuance of food stamp benefits are as follows:

REASON		NO OF CASES	PERCENT OF ERROR CASES
Incorrect reporting of individuals or household members' income		16	34.8%
Incorrect reporting of household members or household members did not exist		6	13.0
Incorrect reporting of expenses		3	6.5
Agency Errors:			
Incorrect amount of income budgeted	8		
Incorrect amount of shelter or utility expenses budgeted	8		
Five other miscellaneous areas of failure to consider available data in the eligibility determination process	5	21	45.7
Total		46	100 %

In addition to agency errors and recipient errors causing overissuance of food stamps, the following errors relative to underissuance were found during our review.

ERRORS/UNDERISSUANCE: Our review results indicated that 20 of the 335 review cases were not issued all the food stamps the recipients were legally entitled to receive. This projects to a 6.0% error rate for underissuance because of agency or recipient error. This 6.0% error rate is projected at a 95% level of confidence with approximate sampling reliability of plus 3.1% and minus 2.3%. The amount of underissuance for February, 1983 associated with the 6.0% error rate is $500,533. This projection has approximate sampling reliability of plus or minus 0.66%.

A summary of the reasons for the errors that caused underissuance of food stamps is as follows:

REASON	NO OF CASES	PERCENT OF ERROR CASES
Income not correctly reported	1	5.0%
Household composition not correctly reported	4	20.0
Expenses not correctly reported	4	20.0

Agency Errors:			
Incorrect budgeting of income	6		
Incorrect handling of expenses	1		
Four miscellaneous areas of failure to consider available data in the eligibility determination process	4	11	55.0
Total		20	100%

AGENCY ERROR SUMMARY: When you combine the 46 errors relating to overissuance and the 20 errors relating to underissuance, you find that 32 out of 66 error cases (48.5%) were caused by DHRS employees. This equates to a 9.6% agency error rate that has a projected dollar error of $976,786, during the review month caused by employees' improper handling of data available to them. Many of the errors could be classified as carelessness in the performance of the eligibility workers duties. Our findings were discussed with the appropriate DHRS officials. They were of the opinion that one of the major contributing problems to this was the pay grade level and starting annual salary for an entry level eligibility worker in the Food Stamp Program. This affecting the professional level of people hired to determine eligibility for food stamp benefits. Relative to this, the following is a comparison of the pay grades and salaries for the Food Stamp Program Eligibility Worker and the AFDC Program Eligibility Worker at the entry level.

	Food Stamp Program	AFDC Program
Pay Grade	7	12
Starting Annual Salary	$8,561	$ 10,962

DHRS officials advised that since February, 1983 the following actions, directly related to job performance, had been taken to reduce the occurrence of errors in the Food Stamp Program.

1. In July, a four tiered comprehensive monitoring system was implemented. This system evaluates statewide performance, district performance, unit performance, and worker performance for the purpose of pointing out deficiencies, mandating corrective actions and requiring follow-up reviews to insure that actions have been taken.

2. In August, a Second Party Review System was implemented in Dade County to carefully review case decisions made by workers. In December this system was implemented statewide.

3. In September, 145 additional positions were established to perform error reduction activities and handle monthly reporting.

In addition, we were advised that the Department has the following corrective actions planned for implementation during the months of January through June, 1984.

1. Retraining of all Food Stamp eligibility staff.
2. Equipping all Food Stamp Eligibility Workers with calculators to assist in reducing budgeting and computation errors.
3. Conduct a comprehensive management study of the Food Stamp Office operations. The study will:
    - A. Identify means of increasing the efficiency of Food Stamp personnel by restructuring/reassignment/elimination of tasks or through automation.
    - B. Develop performance evaluation criteria and evaluation instruments for eligibility staff and unit supervisors.
    - C. Recommend improvements in documents control and handling and storage procedures utilized in the Food Stamp Office.
    - D. Set forth specific recommendations for reducing the error rates.
4. Conduct a formal training needs assessment. This needs assessment will be used to target the type of training provided to Food Stamp staff.

Further, Department officials advise that they have initiated a major redesign of the Food Stamp Information System. This redesign incorporates approximately twenty major enhancements to the system. These enhancements should result in increased worker efficiencies and automated interfaces with other data files concerning Food Stamp recipients.

COMPARISON WITH PREVIOUS REVIEW

As mentioned in the Purpose and Scope section of this Report, this Office made a similar review of the Food Stamp Program for the month of November, 1979.

The following are the overall summary results of the two reviews as related to probable fraud.

	Review Month		
Review Results	November, 1979	February, 1983	Change
Probable Fraud Rate	15.8%	10.2%	- 5.6%
Projected Dollars Associated with Fraud Rate	$4,064,518	$2,921,954	- $1,142,564

As can readily be seen, when you compare the overall results of our review, the probable fraud rate in the Food Stamp Program shows a decrease of 5.6% in February, 1983 compared to November, 1979. The projected dollars associated with the fraud rate also showed a monthly decrease of $1,142,564.

Some of this reduction can be attributable to changes in the Food Stamp Program's policies and procedures, DHRS's efforts to improve the Program's management, DHRS's use of the Auditor General's Income Verification System's data in the Food Stamp Program's recertification of eligibility processes, and the increased prosecution of fraud cases by the States Attorneys Offices. The Food Stamp Program cases were added to the Auditor General's Income Verification System in September, 1980. This was twenty-eight months prior to the U.S.D.A. making income matches a mandatory item for all states. During this period, since September, 1980 through October, 1983 the food stamp rolls have shown a steady decrease in Florida. This decrease is depicted as follows.

MONTH	NUMBER OF CASES	NUMBER OF People	TOTAL DOLLAR VALUE OF MONTHLY ISSUANCES
10/80	383,666	1,049,153	$ 39,102,223
10/81	345,366	881,579	38,991,005
10/82	319,320	847,484	40,207,863
10/83	284,100	764,156	34,680,186

Report Prepared By
Billy G. Davis, Director
Division of Public Assistance Fraud

(The General Accounting Office released a report on February 2, 1984, entitled "Federal And State Initiatives Needed To Improve Productivity And Reduce Administrative Costs Of The Aid To Families With Dependent Children And Food Stamp Programs" (GAO/AFMD-84-18). The digest from that report is printed below.)

FEDERAL AND STATE INITIATIVES NEEDED TO IMPROVE PRODUCTIVITY AND REDUCE ADMINISTRATIVE COSTS OF THE AID TO FAMILIES WITH DEPENDENT CHILDREN AND FOOD STAMP PROGRAMS

DIGEST

State and local welfare offices spent about $3 billion in 1982 to operate the Aid to Families with Dependent Children (AFDC) and Food Stamp programs with about 1/2 of these funds supplied by the federal government. Total benefit payments for the two programs were $22.79 billion. (See p. 1.) All three governmental levels are responsible for efficient administration of the programs.

GAO compared the processing of AFDC and Food Stamp applications at 15 welfare offices in 8 states. It found opportunities for improved productivity that could reduce costs and lower both the federal and state funding needed to support these offices, which managed nearly 600,000 of the 11.4 million AFDC and Food Stamp cases nationwide. Changes at the federal, state, and local levels are needed for the productivity achievements to be realized.

GAO believes it is valid to compare productivity of the various offices that process AFDC and Food Stamp applications because they perform some of the same basic services, including determination of applicants' eligibility and their benefit amounts, and periodic redetermination of each recipient's continued eligibility. Although programs differ somewhat from state to state, these differences can be identified and adjusted for in the productivity measures. In preparing the measures used to compare productivity, GAO made such adjustments by a method referred to as "output weighting." (See p. 36.)

POTENTIAL FOR PRODUCTIVITY IMPROVEMENT BY ADOPTING BEST PRACTICES PRESENTLY USED

Improved productivity results from processing more cases with the same resources or the same quantity with fewer resources while at least maintaining existing levels of timeliness and payment accuracy. Such an improvement seems possible, based on productivity measures at certain welfare offices and state levels. Using measures it developed that followed generally accepted methodology, GAO found that productivity rates of workers directly involved in processing AFDC and Food Stamp applications varied widely among the 15 welfare offices. The rates differed by almost 300 percent--from 5.8 to 16.8 hours per case--for AFDC and by about 600 percent--from 1.5 to 9.3 hours per case--for Food Stamps. (See p. 7.) The Department of Health and Human Services' (HHS) own efficiency measures (covering this period), which represent the average number of cases per income-maintenance employee for each state, indicate an even greater productivity variance among states in processing AFDC cases, from a low of 30 cases per worker to a high of 158 cases per worker.

The extent of potential productivity improvement depends on whether the variance results from processing practices that states can change or other factors.

In examining operations at the 15 offices, GAO found that the productivity variance among the offices resulted primarily from processing practices--procedures, automation, staffing, and management approaches--that states control, and thus can change to improve productivity. According to GAO, demographic factors, which HHS considers a key cause of productivity variances in AFDC, did not have a significant impact on these offices. However, GAO did not examine any offices in western states. HHS's measures indicate that a combination of low population density and low caseload volume, such as in the Dakotas, Montana, and Idaho, has a negative effect on productivity. (See p. 9.)

Besides demographics and processing practices, intended program differences also can create productivity variations by causing more or less processing work. For example, extra time is usually spent on cases where the claimant has income, and some states have more recipients with earned income. In preparing its measures, GAO adjusted for those program differences at the reviewed offices and states that could have a substantive impact on productivity. (See p. 9.) However, program differences exist in other states that were not present in the 8 states GAO reviewed. Adjustments for these would be needed in nationwide productivity measures.

Processing practices accounting for much of the productivity variance

GAO noted numerous processing differences that contributed to the productivity variations among the

the offices, such as forms, method of calculating income and asset values, filing arrangements, interviewing procedures, work scheduling, automation, and office layout. GAO's intent, however, was to identify the key factors that contributed most to the productivity variance, not to identify and quantify the effect of each different factor or processing practice. Those processing practices that, according to GAO, caused the most productivity variation were:

--Streamlined case-processing methods. The more productive offices (1) used consolidated AFDC and Food Stamp application forms, (2) processed AFDC and Food Stamp applications at the same time, and (3) had the same income-maintenance worker process AFDC and Food Stamp cases. (See p. 10.)

--Effective use of computers in processing. For example, Wisconsin, the most automated state GAO reviewed, estimated time savings over manual methods of from 38 to 66 percent depending on the function performed. (See p. 12.)

--High management expectations of performance and motivated employees. When these factors are low, productivity usually will be low, even at offices using automation and streamlined procedures. (See p. 14.)

--Verification of applicants' data, particularly their assets, income and family status, to prevent erroneous benefit payments. Additional verification efforts will decrease measured productivity. In 9 offices where GAO obtained estimates of the time spent on verification, from about 3 to 15 percent of the productivity variance could be attributed to it. Some offices that GAO reviewed performed verification tasks that others did not, such as searching for fathers, making home visits, and requiring more frequent reporting by applicants. (See p. 15.)

While additional verification reduces measured productivity, it also would be expected to reduce erroneous benefit payments. GAO could not verify this at the offices reviewed because the correct payment rates are not available for individual offices. It is important to mention, however, that one of the most productive offices also performed additional verification tasks. This indicates that offices efficient in other aspects of case processing may be able to spend extra time on verification and still have relatively high productivity.

An indication of the potential cost reduction from improved productivity is that if the lower performing offices in GAO's sample raised their productivity to the average of the 15 offices, the administrative cost reductions might range up to 18 percent a year ($8 million of the $44 million spent in these 15 offices in fiscal year 1981). To achieve processing rates equal to the best performing office would, GAO believes, require automation, which would involve some initial added costs. (See p. 17.)

Productivity appears consistent with payment quality

High productivity appears consistent with the goals of prompt and correct payments--organizations doing well in one area seem to do well in the others. GAO found that offices with high productivity tended to have high timeliness standards. HHS studies on AFDC support this conclusion and also indicate a positive or no inverse correlation between productivity and payment accuracy. For the 50 states, the 13 states with the lowest productivity in fiscal year 1980 had the lowest average accuracy rate, and the most productive states compared favorably in payment accuracy with those in the midrange. While GAO does not yet consider this conclusive because of data limitations, the evidence suggests that lower performing offices can improve their productivity up to a point without sacrificing quality. HHS has reached a similar conclusion. (See p. 16.)

FEDERAL REQUIREMENTS HINDER STATE AND LOCAL CASE-PROCESSING PRODUCTIVITY

Efficient processing of AFDC and Food Stamp claims is sometimes impeded by federal laws and regulations. GAO in this review examined the impact of inconsistent federal criteria for determining an applicant's income and assets, and different federal time periods for processing AFDC and Food Stamp cases. These requirements have an identifiable effect on productivity. GAO estimates the requirements add up to $6 million in administrative costs annually just at the offices reviewed. (See p. 31.)

Federal laws and regulations establish different criteria for determining an applicant's income and assets for the AFDC and Food Stamp programs. Consequently, an applicant who is eligible for both programs in effect is treated as two persons in regard to income and assets. Actual income and assets are adjusted by different deductions, exclusions, and additions to arrive at computed income and asset amounts for the two programs, which usually results in different final totals. Besides duplicated effort and additional error potential, making separate calculations is confusing to the applicants and the case workers. GAO and others have previously recommended greater uniformity of income and asset criteria. Some changes have been made, but much remains to be accomplished. (See p. 27.)

Federal laws and regulations also set different maximum times for processing AFDC and Food Stamp applications. More time is allowed for AFDC cases because of their greater complexity, which contributes to inefficiency where applicants are eligible for both programs. Because AFDC benefits are considered income in computing Food Stamp benefits, AFDC cases should be processed first. But some welfare offices process Food Stamp cases first to meet federal timeliness requirements. This means Food Stamp benefits must be redetermined after the AFDC applications are processed. This duplication of effort could be avoided if the same time schedule were applied to both programs. GAO believes that with efficient processing practices AFDC cases can be processed in the shorter 30-day period provided for Food Stamps; offices in 5 of the 8 states were doing so. (See p. 30.)

Federal laws and regulations also set different notice requirements for terminating benefits. Closing a case requires one notice for AFDC and two for Food Stamps. Again, additional processing action is needed. It would seem equitable either for one or two notices to be required for both programs. (See p. 30.)

FEDERAL AGENCIES SHOULD EMPHASIZE PRODUCTIVITY MUCH AS THEY HAVE EMPHASIZED REDUCING PAYMENT ERRORS

Over the years, the federal government has emphasized reduction of benefit payment errors and has encouraged state and local governments to do the same. Consistent with this emphasis, HHS and the Department of Agriculture have installed a nationwide system to report payment-error rates. Financial sanctions are authorized if state rates are too high. Since the establishment of this system, states have reduced their payment errors in AFDC where states share the cost of benefit payments.

Agriculture and HHS have acted to promote efficiency, but they have not established a nationwide system for tracking or improving productivity. HHS, however, has AFDC performance measures, "administrative costs per case" and "cases per worker", which it is developing further. Both are efficiency measures but less refined than the productivity measures GAO prepared and believes should be developed for both AFDC and Food Stamps. GAO believes that nationwide productivity and administrative cost-per-case measures for the two programs will effectively promote increased productivity and cost reduction, just as the error-rate measures have helped promote a reduction in AFDC benefit overpayments. (See p. 18.)

Besides developing and publishing productivity measures, Agriculture and HHS should take other actions to emphasize efficiency along with error-rate reduction. For example, they could (1) jointly establish a mechanism to identify the best processing practices, including changes in federal laws and regulations, to facilitate prompt, accurate, and efficient processing for both programs (see p. 21) and (2) formulate uniform federal criteria for determining income, assets and processing deadlines and propose legislation as necessary for congressional action (see pp. 21 and 30). Agriculture and HHS, currently, have a joint project to eliminate administrative differences between the programs and thus enhance states' abilities to integrate their administrative processes for AFDC, Food Stamp, and Medicaid programs. It may be appropriate for the joint project group to take on these responsibilities.

RECOMMENDATIONS TO THE SECRETARIES OF HEALTH AND HUMAN SERVICES AND AGRICULTURE

GAO recommends that the secretaries cooperate with each other and work with the Congress to remove inconsistent federal requirements on state and local governments administering the AFDC and Food Stamp programs and place greater emphasis on administrative efficiency by

--establishing a nationwide productivity measurement and reporting system for the AFDC and Food Stamp programs,

--establishing a joint mechanism for identifying the best operating practices, including changes in federal laws and regulations, that will facilitate prompt, accurate, and efficient processing for both programs,

--formulating uniform federal financial requirements for measuring income and assets and common time periods for processing applications and closing out cases, and proposing legislative change as necessary for congressional action.

AGENCY COMMENTS

Comments on a draft of this report were received from HHS, Agriculture, and each state reviewed except Virginia. (See apps. VII-XV.) GAO invited comments from the eight states it reviewed.

With regard to GAO's recommendation for encouraging efficient operating practices, Agriculture and HHS stated in essence that their Departments were already doing what they believed was needed and each noted its current efforts in this area. Also, Agriculture stated its long-standing position that the greatest efficiencies can be made by states tailoring procedures to accommodate their individual needs. Notwithstanding the two Departments' efforts, GAO believes they can do more of importance, particularly joint participation to identify improvement opportunities requiring their action as well as state action. (See p. 22.)

Agriculture did not respond to GAO's recommendation that a nationwide productivity measurement and reporting system be developed. HHS opposed the development of a productivity measurement system, favoring instead its cost-per-case and cases-per-worker measures. HHS also questioned the comparability of productivity data for all states and the validity and availability of data for preparing the type of measures GAO recommended. (See p. 23.)

GAO did not intend to imply that HHS should abandon its measures. On the contrary, GAO believes HHS should continue both measures and that Agriculture should develop comparable and compatible measures for the Food Stamp program. GAO recommends HHS improve the usefulness of its measures by further refinement--to adjust for differences in programs among states and the types of cases among offices.

Regarding the validity and availability of output data, GAO does not consider this a significant problem because most of the data needed is already available and there are various means for verifying it. Regarding comparability, GAO is convinced from its review that productivity comparisons among states and offices within states are appropriate. HHS has acknowledged as much in making comparisons and correlations using its more rudimentary measures.

Three states commented specifically on productivity measures. Maryland stated that productivity measures were an essential management tool. Louisiana pointed out that it uses productivity measures for all local offices. California was opposed to establishing national productivity measures, but stated it already has a system that uses productivity standards to control administrative costs. (See p. 23.)

Five states commenting specifically agreed with GAO's recommendation for standardization of financial requirements and processing time periods. HHS also agreed that it and Agriculture should undertake cooperative efforts to find ways to make the programs more uniform. (See p. 33.)

Agriculture, however, did not explicitly agree to work with HHS. Instead, it cited examples of program consolidation actions it had taken on its own or in cooperation with HHS and others. Notwithstanding Agriculture's efforts, work is still required to standardize requirements between the programs and GAO hopes Agriculture agrees on the need for changes. (See p. 33.)

(The General Accounting Office released a report on April 25, 1984, entitled "Federal And State Liability For Inaccurate Payments Of Food Stamp, AFDC, And SSI Program Benefits" (GAO/RCED-84-15). The letter summary of that report is printed below.)

B-215017

The Honorable Jesse A. Helms
Chairman, Committee on Agriculture,
  Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

Your January 30, 1984, letter asked that we analyze the Food Stamp Program's existing error-rate sanction system and compare it with systems used in other federal programs, specifically the Supplemental Security Income (SSI) Program and the Aid to Families with Dependent Children (AFDC) Program. These systems are used to hold states, or the federal government as is the case with the SSI Program, financially liable for excessive errors in determining applicants' eligibility and monthly benefit levels. States are liable for excessive losses of federally financed Food Stamp and AFDC benefits, and the federal government is similarly responsible for excessive losses if it administers a state's mandatory and optional supplements to federal SSI benefits.

You also requested that we analyze the error rates in the Food Stamp Program for each state and nationally to identify the dollar amounts and percentage of benefits issued in error and that we provide similar data for the AFDC and SSI Programs. In addition, you asked that we provide information on the financial liabilities (sanctions) that have been assessed and paid for excessive error rates and that we compare that data to the federal dollars contributed to each program. As discussed with your office, the Department of Agriculture (USDA) had only completed its analysis of states' error rates for the first half of fiscal year 1983, the first year for which the revised Food Stamp error-rate sanction system is to apply. Therefore, there is insufficient information for determining, as you requested, how error rates have changed since adoption of the new system which is to apply on an annual basis.

We examined error-rate trends for each of the three programs and determined the extent to which sanctions had been assessed and paid for erroneously issued benefits. We also compared the error-rate sanction systems used in these programs and calculated the amounts of financial sanctions that would result under varying error levels in issuing benefits under each sanction system. This data shows the degree to which the existing systems would cover excessive losses from benefit overpayments.[1]

Our analyses were based on data collected from USDA's Food and Nutrition Service which administers the Food Stamp Program, and the Department of Health and Human Services' (HHS') Social Security Administration which administers both the AFDC and SSI Programs. Our analyses of error rates are primarily based on data for the most recent periods for which we could obtain information for each program. In order to meet the requested issuance date, we did not verify the accuracy of agency-provided data. A more detailed discussion of our scope and methodology is presented in Appendix IV.

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[1] For purposes of this report, overpayments refer to payments to ineligible persons and overpayments to eligible persons. Underpayments refer to too few benefits received by those determined to be eligible for program participation.

The Food Stamp sanction system for fiscal year 1985 and thereafter will normally result in a much lower sanction amount for a given error rate than the AFDC or SSI systems. This is primarily attributable to that system's higher target error rate for imposing sanctions and its procedures for calculating liability based on state administrative costs. States have not yet reimbursed the federal government for any AFDC or Food Stamp sanction amounts. A major reason is that USDA and HHS have made extensive use of their authority to waive state liability. In contrast, HHS has paid states substantial sums for excessive overpayments of state-financed SSI benefits.

ERROR-RATE SANCTION SYSTEMS USED FOR THE FOOD STAMP, AFDC, AND SSI PROGRAMS

The Food Stamp Program administered by USDA provides food coupons to eligible households to enable them to purchase food and obtain a more nutritious diet. HHS administers the AFDC and SSI Programs which provide cash assistance to eligible families with dependent children, and to needy aged, blind, and disabled persons, respectively.

Over the past several years, errors in determining applicants' eligibility and in calculating monthly benefits for these three needs-based programs have been a major concern of the Congress, the public, and federal and state program administrators. However, substantial amounts of overpayments and underpayments continue to occur. To provide an incentive for improving the integrity of these three programs, error-rate sanction systems have been established to hold the operating states or federal agencies financially accountable for ensuring that participants are eligible and that they receive accurate monthly benefits. The extent of erroneous issuances is determined by federal and state reviews of the accuracy of eligibility determinations and monthly benefits for a statistically valid sample of each program's caseload.

None of the error-rate systems now in effect provide for full reimbursement of the benefit amounts erroneously issued. Instead, they establish error-rate thresholds for erroneous payments and impose financial sanctions for errors that exceed such thresholds.

Although each program has an error-rate sanction system, the systems contain substantial differences regarding (1) who is liable and for what, (2) the applicable error-rate thresholds, (3) how sanction liabilities are calculated, and (4) waiver procedures to reduce or eliminate sanction liabilities.

Who is liable and for what

States operate the Food Stamp Program in which all benefits are federally funded and the AFDC Program in which benefits are jointly financed by states and the federal government. For these programs, states are liable for excessive errors involving only federal funds.

The SSI Program is different. HHS administers and operates a federally financed program in all states. However, states are required to supplement some individuals' benefits and may provide an additional supplement for all those eligible for the federal benefit. The federal government is responsible for excessive overpayments of state funds if states elect to have HHS administer both their mandatory and optional supplements concurrently with the federal benefit payments. Seventeen states have such agreements with HHS.

Applicable error-rate thresholds

Error-rate thresholds for any given year have differed among the programs as well as among states within the programs. In the Food Stamp and AFDC Programs, states have or have had individual target error rates and are required to reduce their error rates to acceptable levels within specified time frames. The SSI Program has had a single administratively established error-rate threshold that has applied to the 17 states involved since April 1979.

Two Food Stamp sanction systems which have applied to different periods in the program have resulted in varying target error rates. Each used states' actual error rates for a previous 6-month period (base-period rate) for calculating individual state targets for future periods. The Food Stamp sanction system for fiscal years 1981 and 1982 required states with base-period rates higher than the national average to reduce erroneous payments (overissuances and underissuances combined) to an individually calculated target. In no case did a state have to achieve reductions below the national average (about 12 percent at that time) to avoid a sanction.

The Food Stamp Act Amendments of 1982 required states to accelerate their error reduction efforts. It established overpayment target rate goals of 9 and 7 percent for fiscal years 1983 and 1984, respectively. However, states could satisfy error reduction requirements without necessarily meeting the established goals. For example, states with overpayment rates above 9 percent for the October 1980 to March 1981 base period could satisfy the requirements for fiscal year 1983 by reducing their error rate by at least one-third of the difference between the base-period rate and the 1985 target of 5 percent. For fiscal year 1984 the reduction must be at least two-thirds, and for fiscal year 1985 and later the rate must be 5 percent or less.

Target error rates for the AFDC and SSI Programs are lower than for Food Stamps. States were required to achieve a 4-percent target for the AFDC Program for fiscal year 1983. States could satisfy error-rate requirements for fiscal years 1981 through 1983 by reducing the base-period rate (Apr. to Sept. 1978) in three equal annual increments to reach the 4-percent target for fiscal year 1983. In 1982, AFDC legislation was passed to reduce the target to 3 percent for fiscal year 1984 and thereafter. The SSI Program has had a 4-percent target rate since fiscal year 1980.

How sanction liabilities are calculated

The AFDC, Food Stamp, and SSI Programs use different procedures for calculating the actual dollar amounts of sanctions. The most common procedure, used in the AFDC and SSI Programs and for fiscal years 1981 and 1982 in the Food Stamp Program, involves multiplying the amount of program benefits financed by the sanctioning agency or state by the extent the actual error rate exceeds the target rate.

Food Stamp procedures for fiscal year 1983 and beyond do not use the amount of program benefits issued to calculate sanction amounts but instead base the sanction on the amount of a state's federally reimbursed administrative costs for that period. Legislation establishing this approach requires that the federal reimbursement of administrative costs (normally about 50 percent of a state's costs) be reduced by 5 percent for each 1 percent or fraction thereof by which the state's overpayment rate exceeds its target rate. If the state's error rate exceeds the target by more than 3 percent, it would lose 10 percent of its federal administrative funding for each percent or fraction thereof exceeding the 3-percent difference.

Other major differences are that error rates under the Food Stamp system for fiscal years 1981 and 1982 include both underpayments and overpayments instead of only overpayments and that the SSI system allows a portion of overpayment collections to be used to reduce sanction amounts. Appendix I contains additional descriptive material on the sanction systems.

EFFECTS OF THE SANCTION SYSTEMS

Our analyses of the error-rate sanction systems used for the three programs showed that if the AFDC and SSI sanction systems were applied to the Food Stamp Program, they would result in much larger sanction amounts. This is attributable to the combined effect of the Food Stamp system's higher error-rate threshold and the different dollar base to which any excessive error-rate amounts are applied.

We based this on our calculations of sanction amounts for a hypothetical state having operating results consistent with fiscal year 1983 Food Stamp operations. We assumed that the state issued $200 million in benefits, received $11 million in federally reimbursed administrative costs, and collected 3 percent of its overpayments. Using target error rates for fiscal year 1985, we found that for all error rates between 4 and 10 percent, the AFDC sanction system would have provided the largest sanction--equal to the amount of excessive overpayments made. The SSI system also would have resulted in sanction amounts substantially larger than the revised Food Stamp system but still less than the AFDC amounts. As applied to these assumed operating conditions in our example, an overpayment error rate of 6 percent would generate sanction amounts of $6 million, $3.88 million, and $550,000 for the AFDC, SSI, and Food Stamp systems, respectively. The principal reason for these differences is that the Food Stamp error-rate threshold for fiscal year 1985 and beyond is set at 5 percent, compared with 4 percent for SSI and 3 percent for AFDC. (See app. II, pp. 9 and 10.)

Another analysis using the same operational data showed that the revised Food Stamp system also would result in smaller sanction amounts if there were no differences in the systems' error-rate thresholds. The AFDC, initial Food Stamp, and SSI systems (except for deductions for SSI collections) would result in a direct dollar-for-dollar relationship between excessive erroneous payments and sanction amounts. This relationship exists because these systems' procedures for calculating sanction amounts provide for multiplying the difference between an excess error rate and the target rate times the total benefits issued. In contrast, the revised Food Stamp system in most instances will result in sanctions of only about one-fourth to one-half of the excessive overpayments, depending on the margin by which the error-rate threshold was missed. The reason for this comparatively lower sanction amount is that the percentage applied to the federally reimbursed administrative cost to calculate the sanction does not result in sanction amounts approximating the excess erroneous payments. The only exception would be if the error-rate threshold were missed by about .25 percent or less--in which case the systems would provide generally similar sanction amounts. For example, missing the target error rate by 1 percent would result in sanction amounts of $2 million, $1.94 million, and $550,000 under the AFDC, SSI, and Food Stamp systems, respectively. If a target rate was missed by a wider margin such as 6 percent, the respective sanction amounts would be $12 million, $11.64 million, and $4.95 million. (See app. II, pp. 11 to 13.)

ERROR-RATE TRENDS

In recent periods, overpayment error rates have decreased for all three programs. Underpayment rates have also decreased but only slightly. For the five most recent 6-month periods for which USDA and HHS had complete data, Food Stamp overpayment rates showed the largest decline--from 10.4 to 8.2 percent. AFDC overpayments dropped from 8.3 to 7.3 percent. SSI Program overpayments decreased from 5.3 percent to 4.1 percent for the entire program and from 6.1 percent to 6 percent for the 17 states in which HHS administers both a mandatory and optional state-financed supplement.[2] For the 6-month period October 1981 to March 1982, the most recent period for which complete and comparable data was available for all three programs, the Food Stamp overpayment rate (9.8 percent) was the highest and the SSI rate (6.9 percent for the 17 states and 4.8 percent overall) was the lowest. The most significant change with respect to dollar losses was that USDA data shows Food Stamp overpayments declining an estimated $69 million over the 2-1/2 year period ending March 1983. Appendix II contains more details on error-rate trends.

SANCTIONS ISSUED--SANCTIONS PAID

The total amount of sanctions issued for fiscal year 1981[3] and thus far for fiscal year 1982 has been about $147 million for the three programs. This includes about $38 million against 22 states for excessive Food Stamp errors made in fiscal years 1981 and the first half of 1982; $74 million against 28 states for excessive overpayments of federal AFDC benefits during fiscal year 1981; and $35 million against the federal government for excessive overpayments of state-financed SSI benefits for fiscal year 1981 and the first half of 1982.

During the periods covered by the above sanctions, about $25.6 billion--$22.7 billion in federally financed Food Stamp and AFDC benefits and $2.9 billion in state SSI supplements--were issued. The erroneously issued benefits subject to the sanction systems in effect for the above periods were about $2 billion, $529 million, and $185 million for the three programs, respectively. The $147 million in sanctions was equivalent to relatively small amounts of those erroneous issuances--2 percent for Food Stamps, 13.9 percent for AFDC, and 19 percent for SSI.

As of early April 1984, states have not paid the federal government any of the food Stamp or AFDC sanction amounts assessed against them. For the SSI Program, HHS has paid the states $150.5 million and acknowledged owing an additional $10.4 million for excessive overpayments.

USDA and HHS regulations allow waiving sanctions for the Food Stamp and AFDC Programs, respectively, but there are no such provisions in the SSI Program. The departments have made extensive use of this waiver authority to eliminate state liability. The primary basis has been states' submissions of corrective action plans, but some were based on states' reductions of their error rates in following periods. If the departments do not waive a Food Stamp or AFDC sanction, states can appeal all or a portion of it through an administrative hearing procedure in each department. If the resulting ruling favors the federal government, states have further appeal rights to the courts. However, a ruling for the state at any level would be binding and would result in eliminating or reducing the sanction in accordance with the terms of the ruling. See appendix III for more details on sanctions and waivers.

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[2] The 6 percent error rate for the 17 states is our estimate based on HHS' reported error rates.

[3] Fiscal year 1981 was the first year for which USDA issued sanction notices for excessive erroneous issuances of Food Stamp benefits. It also was the first period for which HHS sent sanction notices for excessive AFDC overpayments under its current sanction system.

As you requested, we did not obtain agency comments on this report; however, responsible program officials from HHS and USDA have reviewed the information relating to their respective programs. We have made any appropriate changes.

As arranged, unless you publicly announce its contents earlier, we plan no further distribution of this report until 2 days after its issue date. At that time, we will send copies to the Chairmen, Senate Committee on Finance; House Committee on Agriculture; and the House Committee on Ways and Means. We also will send copies to the Secretary of Agriculture; the Secretary of Health and Human Services; and the Director, Office of Management and Budget. We will make copies available to others on request.

Sincerely yours,

J. Dexter Peach
Director

(The General Accounting Office released a report on May 30, 1984, entitled "The Management System For Identifying And Correcting Problems In The Food Stamp Program Can Work Better" (GAO/RCED-84-94). The digest from that report is printed below.)

THE MANAGEMENT SYSTEM FOR IDENTIFYING AND CORRECTING PROBLEMS IN THE FOOD STAMP PROGRAM CAN WORK BETTER

DIGEST

The Food Stamp Program has improved the nutrition of millions of poor Americans, but about $1 billion a year is being lost because of such major problems as incorrect benefit determinations, lost or improperly issued coupons, minimal recovery of overissued program benefits, and limited pursuit of suspected fraud.

The Department of Agriculture's Food and Nutrition Service uses a corrective action process to encourage states to solve program problems. The states are required, as part of this process, to (1) make reviews to identify problems in state and local program operations and (2) develop and implement plans to correct all identified major program problems. (See pp. 1 to 3.)

GAO made this review to determine how well the Service was administering its corrective action process and how well states were identifying and correcting program problems. The review covered Service headquarters, three Service regional offices, and five states--Illinois, Maryland, New Mexico, Ohio, and Texas. According to Service information, the five states had experienced problems, similar to those of other states in the program, with such things as determining eligibility, collecting overpayments, and pursuing fraud.

The Service has taken some actions to help states develop and implement corrective action plans. Although these actions have resulted in some improvements, GAO found that

--some state plans did not cover, or propose adequate solutions to, all major problems;

--the Service did not ensure that states' plans were carried out in a timely manner or that the states monitored the effectiveness of planned actions; and

--Service requirements for state management evaluations of local program operations were burdensome and did not cover all recent program changes.

NEED FOR BETTER CORRECTIVE ACTION PLANS

GAO found that the Service regions had approved some state plans which did not cover all major problems or which proposed corrective actions inadequate for solving the problems that were identified. Also, the Service and the states did not always analyze and summarize all available data to insure that all identified problems were being addressed in the plans. Of the five states whose plans GAO reviewed, only Texas had developed corrective actions for solving most major problems. (See pp. 8 to 11.)

GAO believes that some state plans might have addressed more major problems if the Service had better criteria for determining which problems the plans should include. The Service requires states to develop plans to correct problems constituting a statewide trend. Regulations define major problems as those which exist in 25 percent of the state's project areas. However, this definition may result in overlooking some major problems that the plans should cover.

For example, in Baltimore, which had 53 percent of Maryland's food stamp recipients, as much as $62,000 was lost monthly because the state issued duplicate benefits for some participants. Although the state subsequently identified the problem and took corrective action, the problem did not meet the 25-percent criterion and was not included in the state's plan. Adding criteria based on the dollar amount of losses or percent of cases affected could help identify this type of problem for inclusion in a state plan, thus helping to ensure expeditious resolution. (See p. 13.)

GAO found that even when corrective action plans included major problems, the planned solutions were not always adequate. For example, Ohio generally limited its corrective actions to proposing additional policy guidance and training packages because the state believed it lacked the resources to develop more comprehensive solutions and could not always rely on local offices to carry out such solutions.

Also, Maryland focused primarily on problems contributing to its high error rates, associated with benefit overissuances, for which the Service can impose a financial penalty (sanction). While it developed corrective actions for those problems, it paid less attention to other major problems related to such things as establishing claims and collecting overpayments. Regional officials recognized that some proposed actions were not sufficient but said that they had approved the plans to assure some level of progress. (See pp. 14 and 15.)

To identify the extent and severity of any problems, the Service requires states to periodically evaluate local program operations. However, GAO found that the states and the Service regional offices it reviewed had not analyzed and summarized the results of all such evaluations. Therefore, they sometimes did not realize that some problems were occurring statewide and needed to be addressed in the states' plans.

For example, during its annual review of state operations in 1983, the Service's Mid-Atlantic Region found that Maryland's plan did not address two statewide problems that the state should have identified about 2 years earlier by routine analysis of management evaluations. These were (1) losses caused by inadequate reconciliation of issuance records with household eligibility records and (2) inadequate documentation that recipients had been properly notified of their benefit changes.

Regional officials said that they were not in a position to routinely identify statewide problems because they did not normally get copies of all management evaluation reports and, therefore, had to depend on states to identify statewide problems. (See pp. 12 and 13.)

Recommendations

GAO recommends that the Service revise its regulations to add criteria related to dollar losses and percent of cases affected to the definition of what constitutes major problems which must be addressed in state corrective action plans. GAO also recommends that the Service make sure that states develop plans that include all major problems and propose solutions that are sufficient to eliminate or substantially reduce the problems. Also, the Service and states should routinely analyze management evaluation reports to ensure that major problems are not overlooked.

GAO also makes additional recommendations on ways the Service can better assist states to develop comprehensive and adequate corrective action plans. (See p. 19.)

THE SERVICE NEEDS TO MAKE SURE THAT STATES CORRECT PROBLEMS

Service regulations require states to set target dates for carrying out the corrective actions in their plans. However, GAO found that the five states it reviewed had carried out some actions later than planned and were particularly slow to carry out complex actions. For example, New Mexico started wage matching activities 10 months later than its target date. (Wage matching is a way of detecting inaccurately issued benefits to program participants who do not correctly report their earned incomes.) Reasons for such slippages included placing a higher priority on other efforts, such as taking action to implement new regulations, and difficulties in obtaining cooperation from other state agencies that needed to help with the corrective action. (See pp. 22 and 23.)

Service regulations require states to monitor local implementation of corrective actions. However, GAO found that three of the five states either had inadequate procedures for monitoring corrective actions or improperly used such procedures. For example, Ohio officials did not always document the results of their monitoring of local offices' implementation of corrective actions. Also, a Service assessment of New Mexico's monitoring operations concluded that state efforts were not sufficiently detailed and therefore did not allow the state to determine the adequacy of local efforts.

Although states are not required to submit periodic reports on the status of corrective actions, Service officials believed that use of such a monitoring technique could improve both

Service and state program administration. GAO found that such reports were used successfully with states facing possible sanctions and believes that they should be considered for other major problems needing state action. Regional officials said that these reports kept the Service apprised of the states' progress, required states to carry out monitoring and evaluation, and helped focus the states' attention on the need to carry out corrective actions. Without adequate federal and state monitoring and evaluation, the extent of progress made in reducing or eliminating deficiencies may not be known until the Service or states make subsequent reviews or the state plans are updated. (See pp. 23 to 25.)

Holding states accountable for their Food Stamp Program deficiencies has made states put more emphasis on carrying out corrective actions. The Service had notified four of the states GAO reviewed of their potential liability for dollars lost because of errors in eligibility determinations and other aspects of program administration. Maryland, New Mexico, and Texas had faced or were facing possible sanctions for high error rates, and Ohio had been billed for late reviews to determine whether participating households should continue to receive benefits. In each case, the possibility of losing some federal funds prompted top level state and local officials to give increased attention to the Food Stamp Program. These officials said that they were motivated by the desire to avoid both losing dollars and the unfavorable publicity that can accompany a federal sanction. (See pp. 25 to 27.)

GAO found, however, that the regional offices, lacked clear-cut criteria for determining when to initiate the formal warning process for notifying states that some federal funds might be withheld. As a result, the regions had different criteria for initiating warnings and different inclinations to use this process. From 1980 through 1982, the Mid-Atlantic Region issued 17 warnings, the Midwest Region sent out about 15 warnings, and the Southwest Region did not use the warning process at all. Service headquarters officials said that these differences were not attributable to the magnitude of problems of the states in each region but rather to the regions' preferences. (See pp. 27 and 28.)

Recommendations

GAO recommends that the Service notify states to implement corrective actions in accordance with approved target dates, make sure that states adequately monitor and evaluate corrective actions, and consider requiring states to submit status reports on the progress made on particularly serious problems. The Service also should develop and issue policy guidance stressing more consistency in regional use of the formal warning process. This guidance should include a list of the problems that warrant issuing a warning. (See pp. 29 and 30.)

STATE MANAGEMENT EVALUATIONS CAN BE MORE USEFUL

Service regulations and manuals published in 1980 call for states to make comprehensive evaluations of their local program operations and administration. Service and state officials told GAO that states had difficulty meeting Service-required time frames because the evaluations were to cover all program functions in an in-depth manner.

The Service has offered states two approaches to reduce the effort needed to satisfy evaluation requirements. It has allowed states to consolidate geographic project areas into larger management units to facilitate making these evaluations. Four of the five states GAO reviewed had established such management units. However, GAO found that in one of these states, the consolidation had substantially reduced the number of local projects reviewed to the extent that identifying statewide problems would be difficult. (See pp. 33 and 34.)

The Service also has considered state-requested waivers to allow states to reduce the number of program functions and/or cases reviewed. These waivers are in effect for 1 year. The three regions GAO reviewed had granted five waivers. However, this approach is temporary and does not result in consistent treatment of states. Some states had not requested any waivers, and GAO noted variations in the types of waivers that others had been granted. The Service has recognized the need for a permanent management evaluation process, and it plans to revise the applicable regulations and manuals. (See pp. 34 to 36.)

Service evaluation requirements have not been updated to recognize recent legislative changes which require states to adopt more restrictive eligibility criteria, more intensively verify client-reported information on benefit application forms, and strengthen benefit-issuance procedures and overpayment recovery techniques. The Service plans to revise the requirements in 1984. (See pp. 36 and 37.)

Recommendations

GAO recommends that the Service withhold approval of changes regarding management units which would materially reduce a state's ability to identify statewide problems. In revising its management evaluation regulations and manuals, the Service should (1) streamline and target evaluation guidance to emphasize the identification of causes for and solutions to the more serious problems and (2) incorporate recent legislative changes. (See p. 38.)

AGENCY COMMENTS AND GAO EVALUATION

The Department of Agriculture agreed that the corrective action process could be improved and said that the Service would take the steps needed to do so. It said that the Service would (1) make maximum technical assistance efforts to help states develop better corrective action plans, (2) notify states that plans are to be implemented in accordance with approved dates, (3) revise management evaluation and corrective action regulations and manuals to streamline and update evaluation requirements, and (4) withhold approval of any state request to establish management units that would materially reduce the state's ability to identify statewide problems. (See app. I and pp. 19, 30, and 38.)

Agriculture expressed reservations about adding dollar losses or the percent of cases affected to the criteria used to determine which problems must be addressed in corrective action plans. It said that this could lead to additional administrative efforts without any additional payoff. GAO believes, however, that a gap exists in Service regulations to determine which problems must be addressed in corrective action plans and that this gap, which was also pointed out by a Service regional official, could be closed by adding the suggested criteria to that now used. By adding these criteria, the Service would be in a position to better ensure that all major problems are identified. (See p. 20.)

Regarding obtaining and analyzing management evaluations, Agriculture said that the Service's regions reviewed all management evaluations while making onsite reviews of state agency operations. It agreed that periodic status reports proved useful under special situations but said that such reports should be used judiciously to avoid requiring states to make unjustifiable efforts. GAO believes that the Service should routinely obtain and review all management evaluations to be aware of the types and extent of existing problems. As Agriculture noted, periodic status reports had been used previously for monitoring corrective action on more serious problems. GAO believes that continued reporting on that basis is appropriate. (See pp. 20 and 30.)

Regarding use of formal warnings, Agriculture said that the Service preferred to allow its regions to issue formal warnings according to their best judgment. Although GAO recommends that the Service issue policy guidance to achieve a more uniform regional application of the formal warning process, it does not envision that such a policy would be interpreted so strictly as to prohibit consideration of an individual state's circumstances. (See pp. 30 and 31.)

APRIL 30, 1984 HEARING

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

This is the first hearing that the Nutrition Subcommittee has held on the food stamp program this year, and it provides a good opportunity to exercise oversight of this program and to hear testimony on pending legislation. The Chairman has been diligent in his efforts to address problems in the program and has introduced two bills. Senators McClure and Armstrong have also introduced a comprehensive food stamp bill. We received the Administration's legislation last week, and representatives from the U.S. Department of Agriculture's Food and Nutrition Service were the primary witnesses at a full committee hearing last Wednesday. At that time we heard from Assistant Secretary Mary Jarratt, the Inspector General, and GAO.

In reponse to the recommendations of the President's Task Force on Food Assistance, I plan to introduce food stamp legislation that would implement many of the constructive recommendations contained in their report. I understand that Senator Huddleston may also introduce food stamp legislation soon.

Program Progress At the State Level

Last fall, this subcommittee held an oversight hearing to determine how the States were implementing various program reforms passed by the Congress since the 1977 amendments. Many reforms to strengthen the program were enacted during the reconciliation process of 1981 and 1982. In fact, we achieved about $7 billion in savings in the food stamp program over the 3-year period fiscal year 1982-1985. This bipartisan cooperative effort resulted in changes that improved the targeting of benefits, and this has been partially achieved, as demonstrated by the increased number of recipients being served from 1980 to 1983. Program participation went from about 21 million to over 23 million people. The Government invested $12.8 billion on this program during the past fiscal year. Primarily because of the improvement in the economy, food stamp expenditures are expected to decrease during this fiscal year by about $500 million.

State Error Rates

In 1982, I proposed legislation to strengthen the State error rate sanction system, and it appears the changes are working. Last Wednesday, Assistant Secretary Jarratt testified that the latest USDA figures indicate that error rates are down to around 8 percent now. This represents a significant improvement in performance. The overpayment error rate dropped from 10.4 percent in 1981 to 8.2 percent in 1983 -- a 20 percent reduction in 2 years. The final target for 1985 is 5 percent, and I believe this is a realistic one.

Food Stamp Reforms

Since the food stamp amendments of 1977, the Congress has enacted just about all of the reform measures that have been recommended in hearings to address problems of fraud and abuse. In 1981, Senator Leahy and myself, along with many of our colleagues, including Senator Cochran, introduced the Food Stamp Accountability Act of 1981. Most of this has since become law. In 1982, we again introduced legislation that contained comprehensvie program reform measures. Just about all of these have now been implemented by USDA in regulations. We have attempted to provide the necessary tools to enable law enforcement officials to go after the serious problems of fraud and abuse that exist and, to the best of my knowledge, it is now a question of allowing these tools to do their job with the proper resources.

USDA and law enforcement authorities have been cracking down on large-scale fraud and black market activities, with a lot of success. As most people are aware, the major fraud and abuse in the food stamp program does not occur at the recipient level. There are many deserving low-income Americans who are being hurt by the negative image that this program continues to portray to the American public, but I hope that the reforms enacted since the 1977 amendments will eventually have a positive effect on the program's image.

Low-income Americans should be able to participate in the food stamp program if they are in need without having to feel that they are somehow being robbed of their dignity because of the program's unpopular image. The food stamp program serves a worthwhile purpose in providing food assistance to deserving low-income families and individuals. However, we must continue to exercise oversight to make certain that the program is working as effectively as possible.

STATEMENT OF ROBERT E. FULTON, DIRECTOR, OKLAHOMA DEPARTMENT OF SOCIAL SERVICES

The Food Stamp Program in Oklahoma.

I appreciate the opportunity to provide testimony concerning the Food Stamp Program. I would like to begin by giving you a brief description of the food stamp program in Oklahoma.

Oklahoma is currently serving 99,000 households with 266,000 persons and aggregate monthly benefits of about $10,700,000. Represented in these totals are 19,000 elderly households with an average benefit of $13; however, 14,000 of these households receive only $10. There are 15,000 AFDC households with 50,000 persons with an average benefit of $169 per family.

Oklahoma has a state-administered program with statewide policies and procedures. Coupon issuance is primarily by mail; however, in a small number of situations, Authorizations to Participate are issued. Applications are processed in the 77 counties and, through a highly automated system, certifications are teleprocessed to the central office and coupons or ATP's are mailed.

Because of the effective work of our county offices and the efficiency of the automated system, Oklahoma has been able to maintain tight controls. Oklahoma has consistently maintained one of the lower error rates in the nation. Currently, the error rate in Oklahoma is 6.8% which is well below the national average.

Oklahoma is, I believe, the only state in the nation operating a state-wide nutrition and consumer education program as an adjunct to the food stamp program. We have made this effort a key part of helping the elderly, disabled, and low income families to expand their purchase power with the food stamp dollar.

Comments on pending bills

The following are my comments on bills under consideration in Congress:

Domestic Food Assistance Act of 1984 (Dole Bill)

Categorical Eligibility. I am strongly in favor of categorical eligibility of households for food stamps. The Oklahoma Department of Human Services is currently participating in a pilot project which bases the amount of the coupon allotment on the income and resource definitions used for the Title XIX (Medical Assistance) and Aid to Families with Dependent Children programs. We are convinced that this demonstration project will show that the Federal Government and the State of Oklahoma can save a significant amount of administrative costs by using income and resource definitions from the categorical assistance program in determining eligibility for and amount of food stamp allotments. It seems to me this type of program integration is essential if we are to respond promptly, efficiently and intelligently to the needs of low income people.

Thrifty Food Plan. I support and strongly encourage the restoration of the maximum coupon allotment to 100% of the Thrifty Food Plan. Many of the people being helped through food stamps are extremely hard-pressed financially, and cannot be expected under current circumstances to spend 30% of their cash income for food as the food stamp program assumes they will do, even if benefits are based on 100% of the thrifty food plan.

A mother with one child gets a maximum of $218 per month in AFDC benefits in Oklahoma, and we pay considerably higher benefits than some of our neighboring states. Expecting an AFDC recipient to spend even more than 30% of her cash income on food is simply being unrealistic. I was very glad to read in the paper last week that the Administration will not oppose restoration of benefits to 100% of the thrifty food plan.

Work Incentives. Raising the earned income deduction to 20% from 18% will strengthen work incentives for food stamp recipients. I also support giving states the option to establish Community Work Experience Programs for Food Stamp recipients. However, I believe structured job search activities will be more effective in getting unemployed food stamp recipients into jobs.

In Oklahoma the work registration process is currently a meaningless paper exercise because nothing happens after an individual is registered. Our county staff simply fill out a registration form and file it. This is what USDA has told us to do, because USDA has no agreements with the Department of Labor and State Employment services on handling food stamp referrals. USDA has offered contracts to state public assistance agencies to perform job search activities. The money offered would be insufficient, however, to support a comprehensive statewide program and the red tape involved to obtain a contract from USDA is excessive.

In September 1982, Oklahoma applied to USDA for a job search contract. We were offered a contract in late spring of 1983. We declined the contract as USDA could assure continuation of the effort only through September 1983. USDA did offer job search money again in FY 1984, but Department of Human Services staff resources were already committed to other priorities and could not be pulled off to work on a application that might again lead to the dead-end encountered the previous year.

I recommend that Congress provide funding for job search programs and that USDA be authorized and directed to get job search monies to the states through an expedited process. A state like Oklahoma, which has a very successful employment program for AFDC recipients should be able to get funding for food stamp job search activities without months of tedious exchanges of letters and trips to Washington.

Rebate of Sales Taxes on Food Purchased with Food Stamps. Oklahoma is strongly opposed to the proposal to require states to rebate revenues from sales taxes collected on food purchased with food stamps. Since the late 1930s Oklahoma has had a 2¢ sales tax which is the primary source of state funding for the operations of the Department of Human Services. An additional temporary one-cent state-wide sales tax adopted this year, goes to the general fund. Finally, cities, towns and counties may vote additional sales taxes for use in the operation of local governments.

In Oklahoma, food stamp recipients get major benefit from sales tax revenues. To rebate revenues on food purchases made with food stamps would, in fact, reduce services available to low income people from state and local government. This would be especially true in the case of the Oklahoma Department of Human Services. Indeed, if such a rebate were required, Oklahoma could well be forced to cut medical and cash benefits for the poorest of the poor--more than off-setting any benefit they would get from the rebate of the sales taxes on food stamps.

2. Food Stamp Reform Act of 1983 (S. 1727, McClure Bill)

I cannot support and indeed strongly oppose several of the provisions in this bill. For example, the purchase requirement which was eliminated in 1977 should not be restored. This would add substantially to administrative costs and it would discourage participation by many who need food stamps the most.

Limiting eligibility to those with gross incomes at or below 100% of poverty, and reducing the standard deduction from $85 to $60 are simply ways of cutting benefits. The issue of food stamps going to those above the poverty line is primarily a question of how long a time-frame is considered. If a person is out of work and he (or she) and his family are in poverty for 3 or 4 months, should we deny food stamps during that time just because they're not in poverty for the rest of the year? I don't think so.

I do believe, however, that, in order to improve equity in benefits and between poeple, we must eventually begin to include cash benefits and other benefits such as food stamps in the taxable income of recipients. In other words, we should use the tax system to reduce inequities. I understand this is done in a number of European countries.

I do not support making photo ID cards mandatory. The State of Oklahoma uses mail issuance of food stamps and authorizations to participate. Since it would be impossible to assure that retail outlets routinely check ID cards, we are skeptical about the gain from issuance of ID cards. Moreover, the costs of equipment to produce photo ID cards in 77 counties and the inconvenience to recipients in obtaining cards would be substantial.

Finally, I am concerned that requiring energy assistance to be counted as income for food stamp eligibility and benefit calculation as proposed by the McClure bill, would tend to defeat the purpose of the energy program. The effect would be a reduction in the overall purchasing power of the low-income people in paying their heating, cooling and food costs.

3. Food Stamp Integrity and Accountability Act (S. 1993, Helms Bill)

Many provisions of Senator Helms' bill parallel those of the McClure bill. Some of the provisions would have severe impacts upon the Food Stamp Program. For example:

3% Error Rate Tolerance. I am very much opposed to lowering the quality control tolerance level to 3%. That has not been proven to be a logical, reasonable tolerance level in the Food Stamp Program. Establishment of such a low tolerance level would not cause Oklahoma to make faster progress in reducing error rates since we are doing as much as can on that front right now, given the Federal prohibition against home visits as part of eligibility review. 3% error tolerance would simply be a way of making the states pay for a greater share of the food stamp program.

Lump Sum Payments. While it is desireable to have policies for food stamps and AFDC as compatible as possible, the lump sum provisions in the AFDC Program are very punitive and it would not be desirable to adopt them in the Food Stamp Program. Proceeds from lump sum payments are many times used immediately to pay off long-standing and pressing debts. To consider such payments as income when it is actually not available causes hardship on numerous AFDC recipients. I suggest that consistency be sought through changes in the AFDC law.

Student Loans and Grants. Student eligibility for food stamps is currently limited to the poorest of students who have young children or are employed. The proposal to eliminate the exception currently granted for portions of student loans and grants which are used for tuition and mandatory fees would cause undue hardship on individuals struggling to make a better life for themselves.

Household Definition. I support the provision giving states an option to simplify the household definition. Workers have difficulty in determining household membership using the current household definition. The individual's statement that he/she is a separate part of the household often has to be accepted as fact, thus permitting a separate household status and increased benefit.

4. Food Stamp Optional Block Grant Act of 1983 (S. 1279, Helms Bill)

I would support states having the option to operate a low income nutrition assistance block grant in lieu of the present Food Stamp Program. Most states, as would Oklahoma, would need to analyze the advantages under the block grant and make a decision as to whether it offered substantial advantages. Inevitably, a block grant program--even on a pilot basis--will encounter substantial differences among the states in current organizational arrangements for Federal nutrition program. It will take considerable time for most states to put together workable block grant proposals. I believe, however, that Oklahoma and most other states would, with sufficient lead time, be able to operate the program in an efficient and cost-effective way.

Aspects of the Food Stamp Program about which Oklahoma has Special Concerns

Error Rate Sanctions. As I stated previously, a three percent tolerance would be too low for the Food Stamp Program due to the complexity and the size of the program. I do feel that states must continue to make every effort to lower error rates and have no problem with Federal pressure to this end. In general, however, I am skeptical about the effectiveness and appropriateness of fiscal sanctions in achieving error rate reductions. Withholding administrative costs would often be counter-productive since it would lead, in our state at least, to termination of workers and increased caseloads for those workers remaining.

The Quality Control process should be used as a tool for management but not as a punitive tool to penalize states. I would respectively suggest that two types of actions would do more to reduce error rates in states than all the sanctions Congress can invent: First, I suggest the responsible Congressional committees hold well-publicized hearings in the five states which have the highest error rates and that USDA hold its own hearings in the ten states with the next highest error rates. Second, USDA should intensify its staff's interactions with all states which are above the average national error rate.

The states' effectiveness in dealing with the error rate problem is in large part a question of both political will and managerial effectiveness. Both will be affected, positively, I believe, by the actions I am recommending.

Monthly Reporting and Retrospective Budgeting. I urge that you examine closely the problems states are having with monthly reporting and retrospective budgeting. Cost surveys done in Oklahoma have indicated that administrative costs resulting from monthly reporting and retrospective budgeting may be as high as 3 million dollars per year in the Food Stamp Program alone. This process is extremely difficult and error prone. We acknowledge that USDA has granted a number of waivers to lessen the impact, and the State of Oklahoma has taken advantage of a number of such waivers. However, we are still requiring under USDA policy approximately 18,000 monthly income reports per month from a total of 99,377 households. I believe monthly reporting and retrospective budgeting should be made optional.

Mail Issuance Losses. Public Law 97-98 required the Secretary of Agriculture to establish tolerance rates for mail issuance losses. As a result, USDA set the tolerance rate at the greater of 0.5% or $1500 per project area. Because USDA treats each county in Oklahoma as a project area, Oklahoma is facing sanctions due to excessive mail losses in a small number of counties, even thought the statewide mail loss rate is less than 0.4%.

We have filed suit in Federal court to require USDA to treat Oklahoma as one project area since our food stamps and ATPs are issued from a single state-level point and state employees do eligibility determinations and reviews throughout the state.

I recommend that Congress specify in Legislation that mail tolerance levels be set on a statewide basis, at least in all states which have state-administered programs.

Oklahoma saves the Federal government at least $400,000 a year through mailing of food stamps. We are now being penalized for a total of $19,000 because of losses in a few counties while the state as whole is well within the standard.It is "penny-wise and pound-foolish" to penalize us in the way USDA is attempting.

Cash Out. Oklahoma currently has approximately 26,000 food stamp households receiving SSI benefits. The average benefit per household is $13.00 per individual. The administrative cost to USDA and the Department of Human Services could be greatly reduced if these households could receive cash in lieu of food stamps. I recommend that states be given the option of cashing out food stamps for SSI households.

Need for a Period of Stability in Policy and Legislation. Since enactment of the Food Stamp Act of 1977, state agencies have been constantly bombarded with legislative and regulatory changes. The end result of so many changes is hastily developed policy and complex procedures. Workers have difficulty being certain they have and understand the latest policy. They are, therefore, prone to make more errors. Clients may suffer in the process.

It is our understanding that USDA is currently in the process of issuing proposed rules that will replace Sections 271-274 of existing regulations. The working draft numbers approximately 300 pages. Drafts of the regulations indicate the rules will (1) change methods for measuring error rates thereby causing increases in states error rates, (2) increase Federal requirements, program complexity and administrative costs, (3) adversely affect recipients, and (4) cause massive changes in a program that needs stability.

It is my hope that USDA will not publish these regulations at this time. The food stamp program reauthorization is scheduled for next year. I think USDA and the states should try to stabilize the policies and procedures applicable to the program pending the reauthorization by Congress.

Conclusions

The Food Stamp Program has made a great contribution toward achieving the original purposes of the Food Stamp Act of 1964; namely: "promoting the genral welfare", "safeguarding the health and well-being of the nation's population", and "raising levels of nutrition among the elderly, disabled and low-income households". The program is one of the most controversial of our benefit programs, but it is indeed a wonderful program for those in need. The program is working better now than at any time in the past. What is needed now is program stability and a strengthened Federal/State relationship based on common sense and concern for those whom we're trying to help.

STATEMENT OF RICHARD P. NATHAN, PROFESSOR, WOODROW WILSON SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS, PRINCETON, UNIVERSITY, PRINCETON, N.J.

As someone who has worked on domestic and social policy issues for a long time, I believe it is important to say a good word for a social program when the circumstances warrant it. I am therefore pleased to testify today, because in my view the food stamp program is one of the most important, fair, and efficient social programs of the federal government. The food stamp program enables millions of Americans to improve their health and nutrition and obtain a more adequate diet. It has a strong work incentive. Its administration has been tightened and greatly improved. The food stamp program is also a good economic policy instrument. It is countercyclical; it aids people who are out of work in recession periods, which is when expenditures for this program are highest. On the other hand, spending for food stamps declines when employment rises and the economy advances. Finally, the food stamp program has an important role in the nation's overall welfare system because food stamps reduce the disparities in welfare payments among the states.

My testimony is divided into four main parts: (1) history and character of the food stamp program; (2) food stamps in the context of recent budget cuts; (3) the current situation for food stamp legislation; and (4) food stamps and workfare.

Background

The food stamp program began as a series of pilot projects initiated under President Kennedy. Legislation was enacted in 1964. However, in the Great Society period, when CBS did its famous documentary in Mississippi on "Hunger in America" in 1968, the food stamp program was still "timid in size."[1] Though we tend to forget, it was under President Nixon that food stamps became available to all eligible households and individual recipients. In 1973 Congress mandated the provision of food stamps to every jurisdiction in the nation. In 1977, another big change was made. The food stamp

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[1] Maurice MacDonald, Food, Stamps, and Income Maintenance, Academic Press, 1977, p. ix.

"purchase requirement" was eliminated. This little noticed, but fundamental, reform gave the program greater flexibility and made it more accessible to needy individuals and families. In sum, it was the combination of the 1973 mandate and the 1977 elimination of the "purchase requirement" that made the food stamp program, in essence, "a negative income tax with funny money," supplementing the low income of upwards of 20 million Americans at an annual cost of over $11 billion.

Any social program that grows so much and so quickly and is so visible in every community and thousands of supermarkets is bound to be controversial. The food stamp program is controversial. The result is that a series of changes has been made recently to cut eligibility and costs and to tighten administration by reducing errors, fraud, and abuse.

However, despite these changes and administrative advances, the controversy rages on. It seems that every year we come to this same precipice for the food stamp program. It is in this context that I believe it is important for people who support the food stamp program to say a good word for this good program.

The Recent Period

In 1981 when the current administration took office, President Reagan moved with lightning swiftness and alacrity to shift national priorities -- increasing defense spending and cutting spending for domestic programs, especially social programs. Despite the objectives indicated by Budget Director David A. Stockman to the effect that the cuts in domestic programs should involve an equitable sharing of the burden, William Greider quotes the budget director as being disappointed at the end of the 1981 legislative season that this had not happened. Said Stockman, "'weak clients' suffered for their weakness."[2] The cuts made in 1981 fell heavily and disproportionately on the poor, particularly on the working poor -- a group that President Reagan has consistently sought to wean away from welfare dependency. The food stamp program was one among several programs cut in 1981.

It is significant that the 1981 reconciliation act made permanent cuts. The reconciliation process, as is well known in these chambers, can produce changes both in appropriations and authorizations, in the latter case applying to the rules under which entitlement programs operate.

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[2] William Greider, The Education of David Stockman, Dutton, 1982, p. 60.

At the same precipice two years ago, I spoke with this Committee about ways to reduce spending under the food stamp program. The changes made in the 1981 reconciliation act cut $1.7 billion from food stamp spending in fiscal year 1982. It should be noted -- and in my view it is greatly to the credit of this Committee -- that the changes made by the Congress in 1981 ended up being substantially less severe than the cuts initially proposed by the administration.

The Reagan administration has shifted ground several times on its basic approach to the food stamp program. In the President's 1982 State-of-the-Union message, he set forth a grand design of federalism reforms for so-called "swaps and turnbacks." One of the programs that was to be "turned back" to the states was the food stamp program. The governors balked at this part of the grand design, and later resisted the whole scheme. In any event, the administration officially shifted its ground on the "turnback" idea and said the food stamp program should retain its present character. That character involves federal standards, full federal funding of the stamps, and state administration with the states paying half of the cost of administration. This in my mind is a sensible structure. I think the administration was right to accept the good arguments made by the governors in 1982 that this structure should be retained.

The budget cuts made in 1981, as indicated, have fallen most heavily on marginally poor families. They have been hit by cuts in AFDC, Medicaid, food stamps, the school lunch program, public service jobs, and other social service programs (like job training), which are especially important to this working-poor group.

In research we are doing at the Woodrow Wilson School of Princeton University under a grant from the Ford Foundation, we have been conducting a national field network evaluation study of the effects of the Reagan cuts and changes in grant programs in fifty-four state and local governments throughout the nation. To capsulize the results of this study so far and tie them to the food stamp program, we have found that the cuts in income-transfer programs have been the deepest and most lasting cuts, and that the cuts in social service programs have in more cases been restored by later federal action (e.g., the 1982 Emergency Jobs Bill) or replaced by states and localities.[3]

The 1981 cuts, as will be recalled, hit home as the sharpest and deepest postwar recession was occurring. This meant that states and localities, strapped for revenues by virtue of the recession, could do relatively little to restore budget cuts or aid the poor and the new jobless. The one program area that stands out in our fifty-four field sites, where the greatest amount of new social program activity occurred, was feeding programs -- both kitchens that serve meals and food dispensaries, in both cases often administered by local religious and other nonprofit organizations. Foundations and private firms in many cases contributed to these efforts.

While research is very difficult to do in this area, there is evidence (at least as a good basis for inference) that the social program mix has shifted away from federally aided and open-ended public income-transfer programs (both cash and in-kind) to more sporadic, emergency programs (like feeding programs) dependent on local and private financing. This is one area where there is evidence that what the President wanted happened. The private and voluntary sector is doing more. This response is not just a response to the cuts in the food stamp program; the 1981 cuts, as indicated, were not that deep. It is a response to the recession, to the cuts in a range of publicly funded social programs, and in larger terms to demographic changes involving the character of families and attitudes about family responsibility.

The essential point that needs to be made is this: In this kind of setting, further cuts in the food stamp program, which in my view is a good program, are not well advised.

Let me shift gears now to discuss the current legislative setting.

The Current Legislative Setting

In response to a growing concern about hunger in 1982 (fifteen years after that original CBS documentary), the Reagan administration set up a "Task Force on Food Assistance." The Task Force issued its report in January of this year. It is a Januslike report; it looks two ways at once. It looks back to the block grant idea, which, as noted, the Reagan administration has already rejected once. The Task Force supports the block grant approach, which is also embodied in legislation before this Committee, introduced by Senator Helms. The Task Force report also makes a number of suggestions to increase benefits -- very modestly -- in order to change what were identified as rigidities or undesirable features of the food stamp program as presently constituted.

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[3] Richard P. Nathan, Fred C. Doolittle, and Associates, The Consequences of Cuts, available from Princeton University Press, 1983.

A number of bills have now been introduced in the Senate, which fall into three main categories: (1) block grant bills, (2) bills to cut the program, (3) bills to adopt the provisions of the Task Force report other than the block grant proposal.

It will come as no surprise to the Committee that my strong preference is for the third category. I believe the idea of a block grant for food stamps is wrong, bad, and backwards. It is bad economic policy and bad social policy. It is bad economic policy because it would place a huge burden on states and localities and private charities in recession periods. It is bad social policy because it would fragment the nation and lead to a greater diversity of treatment of social needs that would enable the states that want to do so to pursue harsh social policies to keep out or push out the poor (even if those states are where the jobs are). It would at the same time place a heavier burden on those jurisdictions (states and localities) that want to maintain adequate or near-adequate standards and levels of assistance for the poor. The block grant idea should in my view be rejected again.

In contrast, I hope the Committee will find a way to consider the other changes (category 3 above) that the President's Task Force endorsed. I do not go into these changes in detail in this written statement, but I am prepared to discuss them at the hearing. They include features that would, for example, restore the "Thrifty Food Plan," restore the 20 percent disregard for earnings, revise the assets test, simplify the treatment of welfare households (the so-called categorically eligible), and change definitions regarding such requirements as that for a "permanent dwelling."

I want to add one comment here about a feature of some of the pending bills that I categorically reject -- that is, the restoration of the purchase requirement, which, as noted above, was eliminated in 1977. I think its elimination was a great step forward in terms of the efficiency and fairness of the food stamp program. It would be a great shame to reverse this action in the current period in the name of budget cutting at a time when the heaviest cuts have already fallen on the poor.

"Workfare"

There is one other subject that is being discussed about the food stamp program, and that is the idea that "workfare" should be made mandatory and universal for food stamp recipients. Such a mandatory provision on a test basis (though not universal) was contained in the 1981 reconciliation act for the AFDC program; states at their own option can experiment with this "work-for-your-welfare" approach. Many states are doing this.

The Manpower Demonstration Research Corporation headquartered in New York City is presently conducting an eight-state systematic test of this provision with random assignment of participants, so we will know if workfare makes a difference -- i.e., if it increases the earnings and job prospects and reduces the dependency of the people in the program. I think this is an important research project. I personally have an open mind about the workfare idea.

Mr. Chairman, I ask to submit materials about the MDRC workfare demonstration for the Record.

My reason for discussing the MDRC workfare demonstration in this testimony is that I think workfare as a concept and approach makes more sense for AFDC than for food stamps. AFDC benefits are larger, and the dependency is typically greater, than in the case of food stamps. I urge that we concentrate on AFDC, rather than food stamps, as the testing ground for changes in the welfare area to move to a more strongly work-connected welfare system. This is not to say that I oppose workfare. I do not. It is my purpose only to put the food stamps workfare issue in this larger perspective, and to urge that we look to the AFDC program (which often includes persons receiving both AFDC and food stamps) as the linchpin for change in this area. I do not recommend any further tightening at this time of the work requirements (already strong) under the food stamp program.

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I thank the Committee for this opportunity to testify. I would be very happy to provide additional information, based on Princeton University or Manpower Demonstration Research Corporation research, on issues that are of importance to the Committee.

STATEMENT OF PETER A. BREEN, DIRECTOR OF MARIN COUNTY, CALIFORNIA WELFARE DEPARTMENT AND CHAIRMAN, APWA NATIONAL COUNCIL OF LOCAL PUBLIC WELFARE ADMINISTRATORS

Mr. Chairman and distinguished members of the subcommittee, I am Peter Breen, Director of the Marin County California Welfare Department. I also serve as Chairman of the American Public Welfare Association's (APWA) affiliate organization, the National Council of Local Public Welfare Administrators (NCLPWA). I am pleased to appear before you today to speak, on behalf of myself and over 1800 local administrators represented by the Council nationwide, about proposals to amend the Food Stamp Act.

As local administrators responsible for programs serving the needy and disadvantaged, we are probably best able to observe and report to you from the local perspective, changing conditions affecting the people we serve, long before a problem of national scope emerges. We have, and are seeing, first-hand the steady and painful increase in poverty over the last five years. Local administrators have continued to experience and report increasing demands for assistance from growing numbers of people, including the new poor — people who had heretofore never needed, ... nor wanted ... nor sought government assistance. While this appalls us, we are also troubled by the large number of food stamp recipients who run out of food long before the end of each month, ... and are forced to seek assistance from private organizations or, in some cases, ... go without. In my own County, with its second national highest per capita income of $12,525 .... after Arlington, Virginia, our food stamp caseload is 3,685 persons, ... our soup kitchen serves 150 meals daily and our food bank distributed 300,000 pounds of food in 1983.

Need for Benefit Restoration

In 1981 and 1982, Congress made significant changes in the food stamp program. We supported some of these changes because administration of the program was made easier and less prone to error and abuse. I must also personally note that local and state administrators greatly appreciate the leadership of Senator Dole and Senator Leahy in preventing passage of the more onerous proposals to drastically cut benefits. However, we now realize that some cuts which were made went beyond the Congressional intent of cost control and benefit targeting and resulted in benefit reductions that have seriously eroded the federal food assistance safety net.

In the last year, a number of reports and surveys, including one released by APWA, have documented a growing and serious hunger problem in our country. And, despite an inability to statistically validate the existence of hunger nationwide, the President's Task Force on Food Assistance found significant evidence of hunger and recommended ways in which the problem might be addressed. We local administrators believe that part of the solution to this current national dilemma is through immediate restoration of benefits cut from the food stamp program since 1981. At this point, and in view of next year's Reauthorization, we certainly do not suggest massive program changes that would alter the basic way the program operates. Instead, we suggest that household benefits should be based on a realistic recognition of economic realities affecting the poor and the new poor alike.

At this point, and with your kind permission, I will identify ....

and highlight those changes that we, as local administrators, believe would immediately improve the responsiveness of the program. These proposals, (recommended by the President's Task Force on Hunger) would not appreciably alter or increase the cost of program administration, but are critical if an adequate national nutrition supplement is to be provided.

Recommendations

(1) Household allotments should reflect the full value of the Thrifty Food Plan (TFP). It is an accepted fact that TFP is the lowest cost diet designed by USDA to meet the most basic and fundamental daily human nutritional needs. When Congress, in 1982, required a one percent reduction in the TFP cost, that resulted in an across-the-board benefit reduction. For poor families, with limited buying power, the impact of this was indeed significant. From my point of view, this action served only to compound the problem of benefits not lasting through the end of the month. Local administrators hold that 100 percent of the food plan costs should be the basis for program benefits. Although food stamps are meant to supplement the food buying power of recipients, we all know that in many poor households food stamps are the sole nutritional resource, and these minimum benefits cannot be cut further and should be restored .... at a minimum .... to the USDA standards of basic nutritional need.

(2) **The earned income deduction should be restored to its pre-1981 level of 20 percent.** It is our experience that poor working families are proud of their employed status and earnestly wish that their income was sufficient to eliminate the need for food stamp supplementation. However, this is not the case and their efforts should never be discouraged. Having met other stringent income eligibility standards, the current 18 percent deduction makes it all but impossible for them to bear the cost of working, (e.g., actual costs of transportation, clothing, payroll taxes, union dues, etc.). Fairness really demands that government not penalize those who are legitimately employed but at the near poverty level. Moreover, a policy that in fact makes it counter-productive to work has long-term work disincentive implications for this and future generations of our most at-risk citizens.

(3) **Raise the assets limits for individuals to $2,250 from $1,500, and for the elderly to $3,350 from $3,000. In addition, the allowable value of a nonexcluded vehicle should be increased to $5,000 from $4,500.** Increasing the assets limits by this small amount will not permit participation by households possessing more than the most meager resources. After more than 10 years without change, the current ceilings do not represent a realistic appraisal of the resources even that the poorest may have on hand. As a result of current regulations, households, most notably the "new poor," are often ineligible due to assets such as an automobile that cannot be readily converted to full and real cash.

We are as administrators especially sensitive to the problems stemming from the current assets limit. Our members have reported on the large numbers of people requesting assistance, ... otherwise income eligible for assistance but, yet, denied because of non-convertible assets.

The APWA Board of Directors made the following observation in their statement on hunger:

> "increasingly, applicants for food assistance are those previously considered middle-class whose status has been undermined by widespread and often long-lasting unemployment....It is this group which is responsible for the increased demand for food stamps...."

(4) **Federal funding for aid to the homeless must be continued.** Thousands of people across the country have no one place to call their home for more than a night or two. Our members report that the problem of homeless is growing, creating a host of new demands for services which are straining government and the private sector's resources to and beyond the limit. In fact, what we are seeing is reminiscent of the Depression Era. Along with drifters and alcoholics, the homeless now include intact, job-seeking families. Public and private efforts to meet their health care, shelter and food needs, while significant, would never have been adequate without the federal assistance provided under the 1983 Jobs Act. In my county alone, funds from P.L. 98-8 were instrumental in establishing shelter for 30 persons per night. Insignificant we might say ....? Not really, when we have 200 homeless each night in the streets.

In our view, continued federal support in this area is of critical importance if we are to make essential life support services available. Further, in order to combat this problem and help the homeless become viable members of the community once more, will require the combined efforts of federal, state and local government and the private sector.

Concerning a related issue, it is my personal belief that states must retain the option to make food stamps available to individuals without a stable address. On this issue I am not sure what position my colleagues would adopt; but, as an administrator of human services, I strongly and personally believe that program benefits must be extended to all eligible persons. Administrative details in an effort to prevent abuse would require some attention. For example, verifying social security numbers and work records may entail a few additional procedures to establish eligibility. In this area, I believe a careful assessment by each state is critical to determine the administrative feasibility of certifying the homeless for benefits.

Other Concerns
I would also like to address for a moment a few proposals that we local administrators believe merit careful consideration by your sub-committee and the Congress.

(1) **We support allowing states to operate a Community Work Experience Program (CWEP) in which recipients may be required to engage in training or to work in public or non-profit jobs in exchange for food stamps.** This option is currently available in the Aid for Families with Dependent Children (AFDC) program. Many states and localities have taken advantage of the CWEP option and it has become an integral part of their program to reduce dependency on welfare and promote self-sufficiency, such as San Diego County California. In the food stamp program, we believe CWEP would increase the options available to state and local government for establishing work program strategies. The flexibility afforded under CWEP would make it possible to design humane and self-

respecting programs geared to specific recipient categories and community needs, thus improve the individual's long-term chance to get and keep a job. However, as noted in a recent General Accounting Office report (GAO/PEMD-84-2) sometimes the cost of CWEP can be prohibitive. A strong work program, ... one that provides useful skills and positive mental outlook, requires significant investment of resources. Lacking adequate funding these programs cannot hope to be successful. Funding beyond the usual 50/50 federal, state match would surely be an attractive ingredient of any proposal to expand work program options at the local level.

(2) The Local administrators support granting authority for staggered issuance. For some time, local administrators have been concerned over the stress experienced by workers due to first-of-the-month activity, especially with monthly reporting. Often a "crisis"-like atmosphere pervades local offices at this time. In areas where staggered issuance has been tried, such as in Fresno County California, we find that workloads are more manageable, ... worker and client anxiety is lessened, mob scenes are avoided and fewer errors are committed. In addition, we believe states should assess the effectiveness of policies regarding office hours. As first-line administrators, we recognize that needs change and our policies should reflect those requirements. In fact, many local offices have instituted hours of operation that reflect the rality of the work and transportation constraints faced by recipients.

Thus far, my statement has chiefly focused on the reasons for our support of proposals that would immediately restore benefits to recipients. At this point I would like to address our concerns about proposals to establish a nutritional assistance block grant in place of the food stamp program. The local administrators are strongly opposed to a block grant approach to nutrition which would destroy standard, national benefits and weaken the national commitment to end hunger and malnutrition.

The food stamp program is the one piece of the safety net that rests upon national eligibility and benefit standards. A block grant could easily result in 50 different programs, thus undermining the Congress's commitment and support for the basic nutrition component of the national income security system.

A person's nutritional needs do not vary by state, town or region. For this reason, program benefits were wisely based by Congress on average food costs for the country as a whole. The result was the virtual elimination of hunger in the 1960s. Local administrators, therefore, responsible to our clients and local boards and taxpayers, fear the possibility of differing benefit standards resulting in recipients moving to other states or cities in search of greater benefits.

A major strength of the current federal food stamp program is its ability to broadly respond to changing economic circumstances affecting the nation and individuals. Under a block grant this flexibility would be sacrificed. After receiving its grant for the year, states would be hard-pressed to increase benefits if, for example, unemployment rose and need was greater than available resources. Moreover, indicators of economic change tend to lag several months behind the actual change. Action to increase state's funding could come too late to prevent the needless hardship of precipitous and drastic reductions. Thus, we believe a block grant approach to nutrition would not serve the objectives of preventing hunger and reducing the resulting potential for long-term health problems.

In closing, I would like to briefly address the issue of state error rates. Some members of Congress and the Administration are urging a lower error rate tolerance than in current law, and more stringent sanctions. **We are opposed to these proposals as disruptive, unnecessary and a counterproductive means of shifting costs to the states and localities.** Error rates in the food stamp program are decreasing, due in large part to corrective actions that states and localities have aggressively implemented in the absence of the distractions of new legislative changes in the past year. This fact should also be viewed in recognition of the complex nature of the program rules requirements that increase the potential for errors. States and localities are making significant progress in their efforts to reduce errors. A 5 percent reduction will be reached in FY 85 by some. Even at the current 5 percent limit for FY 85, our cost in sanctions in California will be $18 million. Who will bear the burden of the shift? There is no evidence that a 3 percent error rate is a reasonable or realistic expectation.

Another concern to us in this area relates to the system used to assess state performance. The quality control system, used to determine state errors and hence penalties, is unfair and unreliable. We believe that if states are to be held liable for errors, the defects in existing quality control procedures should first be corrected. Attached to my statement is legislative language proposed by the states to temporarily suspend error rate penalties in AFDC and Medicaid. The House Ways and Means Committee, in marking up AFDC legislation earlier this month, agreed to this proposal. A suspension would not forgive the penalty, but would hold them in abeyance while the necessary improvements are made in the quality control process. I hope the Agriculture Committee will seriously consider this proposal for food stamps.

This concludes my statement, Mr. Chairman. Thank you for inviting me as a local county administrator to appear before you. I would be glad to answer any questions you might have.

A BILL

To provide for Uniform Quality Control Systems for the Medicaid, Aid to Families with Dependent Children and Food Stamp Programs and suspension of sanctions and withholdings based on error rates in the State administration of these Programs otherwise applicable to the States pending the creation of such Systems.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

Section 1. This Act may be cited as the "Uniform Quality Control Systems Act of 1983."

FINDINGS AND PURPOSE

Sec. 2 (a) The Congress finds that

(1) There are currently three separate and inconsistent Quality Control Systems mandated by the Federal Government to measure the payment error rates by the States in their administration of the Medicaid, Aid to Families with Dependent Children ("AFDC") and Food Stamp Programs;

(2) There are substantial inconsistencies in the operations of the three Quality Control Systems, thereby undermining the reliability of the data generated by these Systems;

(3) The purposes and uses of the Quality Control Systems have become confused;

(4) The Federal Government has levied a number of sanctions upon the several States based on these inconsistent and unreliable Quality Control Systems; and

(5) The issues of the purpose and use of Quality Control Systems and the manner and extent of sanctions to be levied on the States by the Federal Government in reliance upon such Systems must be resolved to assure fair treatment of the States.

(b) It is the purpose of this Act to provide by statute for uniform Quality Control Systems for the Medicaid, AFDC, and Food Stamp Programs, such Systems to be developed jointly by the Secretary of Health and Human Services and the Secretary of Agriculture in close consultation with the

States and, pending establishment of such Systems as provided herein, for the suspension of all sanctions and withholdings otherwise authorized.

JOINT RECOMMENDATIONS

Sec. 3. (a) The Secretary of Health and Human Services and the Secretary of Agriculture shall jointly develop recommendations for the creation of Uniform Quality Control Systems for the Medicaid, AFDC and Food Stamp Programs. These recommendations should address, inter alia,

(1) current measurements of effective and efficient management in these three programs;

(2) reliability of current data on error rates;

(3) timeliness of current Quality Control Systems in providing information for corrective action;

(4) the causes of errors;

(5) the relevance of geographic, socio-economic, and programmatic differences among the States to error rates;

(6) The fairness of a uniform national tolerance rate for errors;

(7) the use of error rate sanctions as a management tool;

(8) the use of various statistical measures and assumptions for measuring error rates.

(b) Not later than eighteen months after the enactment of this Act, the Secretary of Health and Human Services and the Secretary of Agriculture, but only after close consultation with the States, shall present to the Congress for its approval their recommendations regarding reliable, fair and uniform Quality Control Systems for the Medicaid, AFDC, and Food Stamp Programs.

SUSPENSION OF SANCTIONS AND WITHHOLDINGS

Section 4. Pending approval by the Congress of the Joint Recommendations provided for in Sec. 3 herein or of such other legislative act establishing uniform Control Systems for the Medicaid, AFDC and Food Stamp Programs, no action shall be taken to enforce or collect the sanctions, withholdings or other financial penalties provided for by Section 1903(u)(1)(A) of the Social Security Act, 42 U.S.C. 1396 b (u)(1)(A); Section 403(i)(1)(A) of the Social Security Act, 42 U.S.C. 603(i)(1)(A); P.L. 97-248 Sec. 156(e); 45 C.F.R 205.41-42; 42 C.F.R. 431.801-02; and The Food Stamp Act

Amendments of 1980 and 1982, 7 U.S.C §§ 2011-2027 (and if any such sanction, withholding or penalty has already been enforced or collected, on or after April 1, 1983, and before the date of the enactment of this Act, the Secretary of Health and Human Services (or the Secretary of Agriculture for actions involving the food stamp program) shall pay or refund the amount of such sanction, withholding or penalty to the state immediately upon enactment of this Act).

STATEMENT OF SISTER MARY DREY, R.S.M., KANSAS CITY, MISSOURI, UNITED STATES OF AMERICA

Hunger is on the increase--in Kansas City and across the nation. In January of this year, 1984, it was estimated that 113,018 persons or 9% of local Kansas Citians live at or below the poverty level. The unemployment level was also 9%.

Food Stamp participation in the 5 county metro area of Kansas City in November of 1983 included 84,028 persons, totalling $3,866,982. in Food Stamp resources. That average monthly amount per person was $46.02. I believe that this is the reason that between 3,000-5,000 households seek assistance from Emergency Assistance Centers each month, which are sponsored by Churches or not-for-profit agencies. At area Soup Kitchens, 1,500-2,000 meals are served daily with the demand for food greatly surpassing presently available resources.

I work at a Public Housing High Rise Project in the inner city area of Kansas City, and am in contact daily with people who are barely surviving because they lack jobs, which is the root cause of their dependency on all Government assistance programs. I hear the cries of the poor daily, who would much rather be working and making it on their own; the majority of these people are Food Stamp recipients. Their stamps usually take them 2-2½ weeks into the month. They then have to rely on our Food Pantry and Soup Kitchen to stretch their food supply to last the rest of the month.

I am here to say that the need is greater than the food available. The increased need in our community and the inability to meet that need through Food Stamps, Food Pantries and Soup Kitchens are clear indicators that unless the JOBS ISSUE is addressed soon, we will be faced with the problems that our Third World neighbors are facing. The poor are pleading for mercy, for jobs, and for NO cuts in their Food Stamp benefits.

I am a representative of the Mayor's Hunger Task Force, that published this 50 page report on local hunger. Our plans to help alleviate the problem lets you know that we are very sensitive to the issue that we are currently facing. We ask your sympathetic understanding, followed by action in responding adequately to the people in need by allocating more Stamps to people requesting help. Any consideration in making more cuts to the already insufficient amount being received, would really be inhumane.

We are grateful for the invitiation to speak with you today in Washington D.C., but if it were not for the local Church's donations to pay our airfare, our messages would have gone unheard. I ask that you remember these people as you make your final recommendations for Senate approval; and at the hearing in mid-May, for the decision making body, I pray God's Blessing---that they will determine that no man, woman or child go to bed hungry in the land of plenty.

Thank you.

98TH CONGRESS
1ST SESSION

S. 1727

To amend the Food Stamp Act of 1977 to reform and reduce the cost of administering the food stamp program, and for other purposes.

IN THE SENATE OF THE UNITED STATES

AUGUST 2 (legislative day, AUGUST 1), 1983

Mr. MCCLURE (for himself, Mr. GARN, and Mr. ARMSTRONG) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Food Stamp Act of 1977 to reform and reduce the cost of administering the food stamp program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE; TABLE OF CONTENTS

SECTION 1. (a) This Act may be cited as the "Food Stamp Reform Act of 1983".

(b) The table of contents for this Act is as follows:

TABLE OF CONTENTS

Sec. 1. Short title; table of contents.
Sec. 2. References to the Food Stamp Act of 1977.

TITLE I—DEFINITIONS

Sec. 101. Purchase requirement.
Sec. 102. Households.
Sec. 103. Adjustment of eligibility and benefit levels.

TITLE II—ELIGIBLE HOUSEHOLDS

Sec. 201. Income standards of eligibility.
Sec. 202. Nonrecurring lump-sum payments.
Sec. 203. Energy assistance payments.
Sec. 204. Standard deductions.
Sec. 205. Resource limitations.

TITLE III—ELIGIBILITY DISQUALIFICATIONS

Sec. 301. Parents and other caretakers of children.

TITLE IV—ISSUANCE AND USE OF COUPONS

Sec. 401. Cash change.

TITLE V—VALUE OF ALLOTMENT

Sec. 501. Minimum allotment.

TITLE VI—ADMINISTRATION

Sec. 601. Expedited coupon issuance.
Sec. 602. Photographic identification cards.
Sec. 603. Countersignature of coupons.
Sec. 604. Interest and dividend information.

TITLE VII—COLLECTION AND DISPOSITION OF CLAIMS

Sec. 701. Food stamp intercept of unemployment benefits.
Sec. 702. Food stamp intercept of Federal tax refunds.

TITLE VIII—ADMINISTRATIVE COST-SHARING AND QUALITY CONTROLS

Sec. 801. State agency liability for errors.

TITLE IX—EFFECTIVE DATE

Sec. 901. Effective date.

REFERENCES TO THE FOOD STAMP ACT OF 1977

SEC. 2. Except as otherwise specifically provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.).

TITLE I—DEFINITIONS

PURCHASE REQUIREMENT

SEC. 101. (a) Section 3(b) (7 U.S.C. 2012(b)) is amended by inserting "and any amount to be paid by the household for the allotment" before the period at the end thereof.

(b) The first sentence of section 4(a) (7 U.S.C. 2013(a)) is amended by inserting "which has a greater monetary value than the charge to be paid for the allotment by the households" before the period at the end thereof.

(c) Section 8 (7 U.S.C. 2017) is amended—

(1) by striking out the section heading and inserting in lieu thereof the following: "VALUE OF AND CHARGES FOR ALLOTMENT";

(2) by inserting "which is in excess of the amount charged the household for the allotment" after "household" in subsection (b); and

(3) by adding at the end thereof the following new subsections:

"(e)(1) A household shall be charged for the allotments issued to them, except that—

"(A) allotments shall be issued without charge to a household containing an elderly or disabled member; and

"(B) allotments may be issued without charge to a household with an income of less than $30 per month for a family of four under standards of eligibility prescribed by the Secretary.

"(2) The amount of the charge shall represent a reasonable investment on the part of the household, except that the charge may not exceed 30 per centum of the household's income.

"(f) Funds derived from the charges made for allotments shall be promptly deposited, in a manner prescribed in regulations issued pursuant to this Act, in a separate account maintained in the Treasury of the United States for such purpose. The deposits shall be available, without limitation to fiscal years, for the redemption of coupons.".

(d) Section 11 (7 U.S.C. 2020) is amended—

(1) in subsection (e)—

(A) by striking out "and" at the end of paragraph (20); and

(B) by adding at the end thereof the following new paragraph:

"(22) notwithstanding any other provision of law, for the institution of procedures under which a household participating in the food stamp program may have any charges for its allotment deducted from any payment the household receives under title IV of the

Social Security Act (42 U.S.C. 601 et seq.) and have its allotment distributed to it with the payment;"; and

(2) in subsection (h), by striking out "Treasury" and all that follows through the period at the end thereof and inserting in lieu thereof "separate account established under section 8(f), a sum equal to the amount by which the value of any coupons issued as a result of the negligence or fraud exceeds the amount that was charged for the coupons under section 8(e)(2)".

(e) Section 15(a) (7 U.S.C. 2024(a)) is amended by inserting "purchase," after "for the".

(f) Section 18 (7 U.S.C. 2027) is amended—

(1) by adding after the first sentence of subsection (a) the following new sentence: "Such portion of any such appropriation as may be required to pay for the value of the coupon allotments issued to eligible households which is in excess of the charges paid by the households for the allotments shall be transferred to and made a part of the separate account established under section 8(f).";

(2) by amending the first sentence of subsection (b) to read as follows: "In any fiscal year, the Secretary shall limit the value of coupons issued which is in excess of the value of coupons for which households

are charged, to an amount which is not in excess of the portion of the appropriation for the fiscal year which is transferred to the separate account under subsection (a).''; and

(3) by adding at the end thereof the following new subsection:

"(f) If the Secretary determines that any of the funds in the separate account established under section 8(f) are no longer required to carry out this Act, the unneeded funds shall be paid into the miscellaneous receipts of the Treasury.''.

HOUSEHOLDS

SEC. 102. Section 3(i) (7 U.S.C. 2012(i)) is amended—

(1) by striking out "or who, while living with others," in clause (1) of the first sentence and inserting in lieu thereof "and";

(2) by striking out "separate and apart from the others, or" in clause (1) of the first sentence and inserting in lieu thereof a comma;

(3) by striking out "together" the second time it appears in clause (2) of the first sentence;

(4) by inserting before the period at the end of the first sentence the following: ", or (3) at the option of the State agency, one or more individuals who while living with others, customarily purchase food and pre-

pare meals for home consumption separate and apart from the others"; and

(5) by inserting after the second sentence the following new sentence: "Subject to the preceding sentence and the limitation of clause (2) of the first sentence of this subsection relating to parents and children, or siblings, who live together, a State agency may prescribe criteria to determine whether one or more individuals who while living with others, customarily purchase food and prepare meals for home consumption separate and apart from the others qualify as a household under clause (3) of the first sentence of this subsection.".

ADJUSTMENT OF ELIGIBILITY AND BENEFIT LEVELS

SEC. 103. (a) The second sentence of section 3(o) (7 U.S.C. 2012(o)) is amended—

(1) by inserting "and" after "September 30" at the end of clause (5); and

(2) by striking out ", (7)" and all that follows through "household size" at the end of clause (8).

(b) Section 5(e) (7 U.S.C. 2014(e)) is amended—

(1) by striking out the second sentence; and

(2) in clause (2) of the fourth sentence, by striking out "adjusted (i)" and all that follows through "twelve months ending the preceding June 30,".

(c) The amendments made by this section shall become effective on the date of the enactment of this Act.

TITLE II—ELIGIBLE HOUSEHOLDS

INCOME STANDARDS OF ELIGIBILITY

SEC. 201. Section 5(c)(2) (7 U.S.C. 2014(c)(2)) is amended by striking out "by more than 30 per centum".

NONRECURRING LUMP-SUM PAYMENTS

SEC. 202. (a) Section 5(d) (7 U.S.C. 2014(d)) is amended by striking out clause (8).

(b) Section 5(f)(1) (7 U.S.C. 2014(f)(1)) is amended—

(1) by inserting ", other than income of the type described in subparagraph (C)," after "one year" in subparagraph (A); and

(2) by adding at the end thereof the following new subparagraph:

"(C) Household income for those households that receive income in the form of nonrecurring lump-sum payments, including, but not limited to, income tax refunds, rebates, or credits, retroactive lump-sum social security or railroad retirement pension payments, and retroactive lump-sum insurance settlements, shall be income of the household in the month received. The household shall be ineligible for participation in the food stamp program for the whole number of months that equals (i) the sum of such amount and all other income received in such month, not excluded under subsection (d), divided by (ii) the nonfarm income poverty guidelines applicable to such household. Any income remaining (which is less than the applicable monthly standard) shall be treated as household income received in the first month following the period of ineligibility determined under the preceding sentence.".

ENERGY ASSISTANCE PAYMENTS

SEC. 203. (a) Section 5(d) (7 U.S.C. 2014(d)) (as amended by section 202(a) of this Act) is amended—

(1) by striking out clause (11);

(2) by inserting "and" at the end of clause (10); and

(3) by redesignating clauses (9), (10), and (12) as clauses (8), (9), and (10), respectively.

(b) Section 2605(f) of the Low-Income Home Energy Assistance Act of 1981 (42 U.S.C. 8624(f)) is amended—

(1) by striking out "food stamps,"; and

(2) by inserting ", other than the Food Stamp Act of 1977" before the period at the end thereof.

STANDARD DEDUCTIONS

SEC. 204. The first sentence of section 5(e) (7 U.S.C. 2014(e)) is amended by striking out "$85" and inserting in lieu thereof "$60".

RESOURCE LIMITATIONS

SEC. 205. Section 5(g) (7 U.S.C. 2014(g)) is amended—

(1) by striking out "The" in the first sentence and inserting in lieu thereof "(1) Subject to paragraph (2), the"; and

(2) by adding at the end thereof the following new paragraph:

"(2)(A) In lieu of the resource limitations provided for in paragraph (1), a State may, if it so elects, establish resource limitations provided for in subparagraph (B) only, subparagraph (C) only, or both such subparagraphs.

"(B)(i) As used this subparagraph, the term 'resources' has the same meaning given the term for purposes of determining eligibility for benefits under title XVI of the Social Security Act (42 U.S.C. 1601 et seq.) (relating to the supplemental security income progam).

"(ii) If a household includes an elderly or disabled member, the combined resources of all members of the household may not exceed—

"(I) in the case of a household consisting of only one member, the amount referred to in section 1611(a)(1)(B)(ii) of the Social Security Act (42 U.S.C. 1382(a)(1)(B)(ii)) (relating to an individual having no spouse with whom the individual is living); and

"(II) in the case of a household consisting of more than one member, the amount referred to in section 1611(a)(2)(B) of the Social Security Act (42 U.S.C. 1382(a)(2)(B)) (relating to an individual who has an eligible spouse).

"(D)(i) As used in this subparagraph, the term 'resources' has the same meaning given the term for purposes of determining eligibility for aid under the State plan approved under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.).

"(ii) If a household does not include an elderly or disabled member, the combined resources of all members of the household may not exceed the resource limitation applicable to a household of the same size as the household under the State plan approved under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.).

"(E) The choice by a State to use resource limitations under this paragraph in lieu of the limitations under paragraph (1) shall be uniform throughout the State.".

TITLE III—ELIGIBILITY DISQUALIFICATIONS

PARENTS AND OTHER CARETAKERS OF CHILDREN

SEC. 301. Clause (B) of section 6(d)(2) (7 U.S.C. 2015(d)(2)(B)) is amended to read as follows: "(B) a parent or other member of a household with responsibility for the care of (i) a dependent child who is under three years of age,

(ii) a dependent child who is three years of age or older but under six years of age, in any case in which adequate care is not otherwise available, or (iii) an incapacitated person;".

TITLE IV—ISSUANCE AND USE OF COUPONS

CASH CHANGE

SEC. 401. Section 7(b) (7 U.S.C. 2016(b)) is amended—

(1) by striking out ": *Provided further,*" and all that follows through the period at the end thereof and inserting in lieu thereof a period; and

(2) by adding at the end thereof the following new sentences: "Change in any form, other than uncanceled or unmarked coupons which were previously accepted for eligible foods, may not be given to eligible households for food purchases. Eligible households using coupons to purchase food shall pay cash for the amount of such purchase which exceeds the value of the lowest coupon denomination issued.".

TITLE V—VALUE OF ALLOTMENT

MINIMUM ALLOTMENT

SEC. 501. Section 8(a) (7 U.S.C. 2017(a)) is amended by striking out the colon after "dollar" and all that follows through the period at the end thereof and inserting in lieu thereof a period.

TITLE VI—ADMINISTRATION

EXPEDITED COUPON ISSUANCE

SEC. 601. Paragraph (9) of section 11(e) (7 U.S.C. 2020(e)(9)) is amended to read as follows:

"(9) at the option of the State agency, for the provision of coupons on an expedited basis to categories of households designated by the State agency to be in immediate need because such households each have—

"(A) household income, as described in section 5(d), that is less than $85 per month; and

"(B) financial resources, as described in section 5(g), that do not exceed $100;".

PHOTOGRAPHIC IDENTIFICATION CARDS

SEC. 602. Section 11(e)(16) (7 U.S.C. 2020(e)(16)) is amended by striking out "in those" and all that follows through "integrity,".

COUNTERSIGNATURE OF COUPONS

SEC. 603. Section 11(e) (7 U.S.C. 2020(e)) (as amended by section 101(d)(1) of this Act) is amended by adding at the end thereof the following new paragraph:

"(23) that the State agency shall require a member of a household to sign a coupon at the time the coupon is issued to, and used by, the member;".

INTEREST AND DIVIDEND INCOME

SEC. 604. (a) Section 11 (7 U.S.C. 2020) is amended by adding at the end thereof the following new subsection:

"(o) The Secretary, in consultation with the Inspector General of the Department of Agriculture, may require a State agency, the Inspector General, or both, to request and utilize information available under section 6103(l)(9) of the Internal Revenue Code of 1954 pertaining to the interest and dividend income of the households in any State or area if the Secretary determines that such action would aid in protecting the integrity of the food stamp program in such State or area.".

(b)(1) Section 6103(l) of the Internal Revenue Code of 1954 (relating to disclosure of returns and return information for purposes other than tax administration) is amended by adding at the end thereof the following new paragraph:

"(9) DISCLOSURE OF CERTAIN RETURN INFORMATION TO FEDERAL, STATE, AND LOCAL AGENCIES ADMINISTERING FEDERALLY FUNDED NEEDS-BASED PROGRAMS.—

"(A) RETURN INFORMATION FROM INTERNAL REVENUE SERVICE.—The Secretary shall, upon written request, disclose interest and dividend data from automated files containing return information from information returns made pursuant to sections 6041, 6042, and 6049 to officers and employees of an appropriate Federal, State, or local agency administering a federally funded needs-based program.

"(B) RESTRICTION ON DISCLOSURE.—The Secretary shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, determining an individual's eligibility for benefits, or the amount of benefits, under a federally funded needs-based program.".

(2)(A) Paragraph (2) of section 6103(a) of such Code is amended by striking out "or of any local child support enforcement agency" and inserting in lieu thereof ", any local child support enforcement agency, or any local agency administering a federally funded needs-based program".

(B) Subparagraph (A) of section 6103(p)(3) of such Code (relating to records of inspection and disclosure) is amended by striking out "or (8)" and inserting in lieu thereof "(8), or (9)".

(C) Paragraph (4) of section 6103(p) of such Code (relating to safeguards) is amended by striking out "or (8)" in so much of such paragraph as precedes subparagraph (A) thereof and inserting in lieu thereof "(8), or (9)".

(D) Clause (i) of section 6103(p)(4)(F) of such Code is amended by striking out "or (8)" and inserting in lieu thereof "(8), or (9)".

(E) The first sentence of paragraph (2) of section 7213(a) of such Code is amended by striking out "or (8)" and inserting in lieu thereof "(8), or (9)".

TITLE VII—COLLECTION AND DISPOSITION OF CLAIMS

FOOD STAMP INTERCEPT OF UNEMPLOYMENT BENEFITS

SEC. 701. (a) Section 13 (7 U.S.C. 2022) is amended by adding at the end thereof the following new subsection:

"(c)(1) A State agency may determine on a periodic basis, from information supplied pursuant to section 3(b) of the Wagner-Peyser Act (29 U.S.C. 49b(b)), whether an individual receiving compensation under the State's unemployment compensation law (including amounts payable pursuant to an agreement under a Federal unemployment compensation law) owes an uncollected overissuance.

"(2) A State agency may recover an uncollected overissuance—

"(A) by entering into an agreement with an individual described in paragraph (1) under which specified amounts will be withheld from unemployment compensation otherwise payable to the individual and furnishing a copy of the agreement to the State agency administering the unemployment compensation law, or

"(B) in the absence of an agreement, by obtaining a writ, order, summons, or other similar process in the nature of garnishment from a court of competent jurisdiction to require the withholding of amounts from the unemployment compensation.

"(3) As used in this subsection, the term 'uncollected overissuance' means the amount of an overissuance of coupons, as determined under subsection (b)(1), which has not been recovered pursuant to subsection (b)(1).".

(b)(1) Section 11(e) (7 U.S.C. 2020(e)) (as amended by section 603 of this Act) is amended by adding at the end thereof the following new paragraph:

"(24) at the option of the State, for procedures necessary to obtain payment of uncollected overissuance of coupons from unemployment compensation pursuant to section 13(c); and".

(2) Section 3(b) of the Wagner-Peyser Act (29 U.S.C. 49b(b)), as amended by sections 181(i) and 501 of the Job Training Partnership Act (96 Stat. 1356 and 1392), is amended—

(A) by striking out "or" the second place it appears and inserting in lieu thereof a comma; and

(B) by inserting after "such Act," the following: "or of a State agency charged with the administration of the food stamp program in a State under the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.),".

(3) Section 303(d) of the Social Security Act (42 U.S.C. 503(d)) is amended—

(A) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively; and

(B) by inserting after paragraph (1) the following new paragraph:

"(2)(A) The State agency charged with the administration of the State law—

"(i) may require each new applicant for unemployment compensation to disclose whether the applicant owes an uncollected overissuance (as defined in section 13(c)(3) of the Food Stamp Act of 1977) of food stamp coupons,

"(ii) may notify the State food stamp agency to which the uncollected overissuance is owed that the applicant has been determined to be eligible for unemployment compensation if the applicant discloses under clause (i) that the applicant owes an uncollected overissuance and the applicant is determined to be so eligible, "(iii) may deduct and withhold from any unemployment compensation otherwise payable to an individual—

"(I) the amount specified by the individual to the State agency to be deducted and withheld under this clause,

"(II) the amount (if any) determined pursuant to an agreement submitted to the State food stamp agency under section 13(c)(2)(A) of the Food Stamp Act of 1977, or

"(III) any amount otherwise required to be deducted and withheld from the unemployment compensation pursuant to section 13(c)(2)(B) of such Act, and

"(iv) shall pay any amount deducted and withheld under clause (iii) to the appropriate State food stamp agency.

"(B) Any amount deducted and withheld under subparagraph (A)(iii) shall for all purposes be treated as if it were paid to the individual as unemployment compensation and paid by the individual to the State food stamp agency to which the uncollected overissuance is owed as repayment of the individual's uncollected overissuance.

"(C) For purposes of this paragraph, the term 'unemployment compensation' means any compensation payable under the State law (including amounts payable pursuant to an agreement under a Federal unemployment compensation law).

"(D) A State food stamp agency to which an uncollected overissuance is owed shall reimburse the State agency charged with the administration of the State unemployment compensation law for the administrative costs incurred by the State agency under this paragraph which are attributable to repayment of uncollected overissuance to the State food stamp agency to which the uncollected overissuance is owed.".

FOOD STAMP INTERCEPT OF FEDERAL TAX REFUNDS

SEC. 702. (a) Section 13 (7 U.S.C. 2022) (as amended by section 701(a) of this Act) is amended by adding at the end thereof the following new subsection:

"(d)(1) Except as provided in paragraph (7), a State agency may inform the Secretary of the Treasury of the identity of an individual who owes an uncollected overissuance and the amount of the uncollected overissuance.

"(2) Upon receiving notice from a State agency pursuant to paragraph (1), the Secretary of the Treasury shall determine whether any amounts, as refunds of Federal taxes paid, are payable to the named individual (regardless of whether the individual filed a tax return as a married or unmarried individual). If the Secretary of the Treasury finds that an amount is payable, the Secretary of the Treasury shall withhold from the refunds an amount equal to the amount of the uncollected overissuance, and pay the amount to the State agency (together with notice of the individual's home address).

"(3) If the offset procedure is applied for the benefit of a State agency pursuant to paragraph (2), the State agency must pay a fee to the Secretary of the Treasury to reimburse the Secretary for the full cost of applying such procedure. Such fees shall be credited to the appropriation accounts which bore all or part of the costs involved in making the collections.

"(4) The Secretary of the Treasury shall issue regulations, approved by the Secretary, which prescribe—

"(A) the time at which a State agency must submit notice of an uncollected overissuance;

"(B) the manner in which the notice must be submitted;

"(C) the necessary information which must be contained in or accompany the notice; and

"(D) the amount of the fee that a State agency must pay to reimburse the Secretary pursuant to paragraph (3).

"(5) The Secretary of the Treasury shall advise the Secretary, at least annually, of—

"(A) the State agencies which have furnished notices of uncollected overissuances under this subsection;

"(B) the number of cases in each State with respect to which the notices have been furnished under this subsection;

"(C) the amount of uncollected overissuances sought to be collected under this subsection by each State; and

"(D) the amount of the collections actually made under this subsection in the case of each State agency.

"(6) As used in this subsection, the term 'uncollected overissuance' means the amount of an overissuance of coupons, as determined under subsection (b)(1), which has not been collected pursuant to subsection (b)(1) or (c) within three months of the determination of the overissuance.

"(7) An uncollected overissuance shall be subject to the offset procedure described in this subsection if the amount of the uncollected overissuance in the current or previous taxable years and any other amounts owed to the State agency under similar provisions of Federal law equals $100 or more.".

(b)(1) Section 11(e) (7 U.S.C. 2020(e)) (as amended by section 701(b)(1) of this Act) is amended by adding at the end thereof the following new paragraph:

"(25) at the option of the State agency, for procedures necessary to obtain payment of uncollected overissuances of coupons from Federal tax refunds pursuant to section 13(d).".

(2) The proviso of the first sentence of section 16(a) (7 U.S.C. 2025(a)) is amended by striking out "section 13(b)(1) of this Act" and inserting in lieu thereof "subsections (b)(1), (c), and (d) of section 13".

(3) Section 6402(c) of the Internal Revenue Code of 1954 is amended—

(A) by striking out so much of such subsection as precedes "The amount of" and inserting in lieu thereof the following:

"(c) OFFSETS.—

"(1) OFFSET OF PAST DUE SUPPORT AGAINST OVERPAYMENTS.—";

(B) by striking out "subsection" in the third sentence of paragraph (1) and inserting in lieu thereof "paragraph"; and

(C) by adding at the end thereof the following new paragraph:

"(2) OFFSET OF FOOD STAMP OVERISSUANCES AGAINST OVERPAYMENTS.—The amount of any overpayment to be refunded to the person making the overpayment shall be reduced by the amount of any uncollected overissuance (as defined in section 13(d)(6) of the Food Stamp Act of 1977) of food stamp coupons owed by that person and with respect to which the Secretary has been notified by a State agency in accordance with section 13(d) of the Food Stamp Act of 1977. The Secretary shall remit the amount by which the overpayment is so reduced to the State agency to which the uncollected overissuance is due and notify the person who made the overpayment that so much of the overpayment as was necessary to satisfy the person's obligation for an uncollected overissuance has been paid to the State agency. This paragraph shall be applied to an overpayment after such overpayment has been reduced (pursuant to paragraph (1)) by the amount (if any) of past-due support owed by such person and prior to the crediting of such overpayment against such person's future liability for an internal revenue tax.".

(c) The amendments made by this section shall apply to taxable years ending after December 31, 1983.

TITLE VIII—ADMINISTRATIVE COST-SHARING AND QUALITY CONTROLS

STATE AGENCY LIABILITY FOR ERRORS

SEC. 801. (a) Section 16 (7 U.S.C. 2025) is amended—

(1) by striking out subsections (c) and (d) and redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively; and

(2) by inserting after subsection (b) the following new subsection:

"(c)(1) As used in this subsection—

"(A) the term 'dollar value equivalent' means the value of allotments determined by multiplying the payment error rate for a fiscal year by the dollar value of all allotments issued during that fiscal year by a State agency; and

"(B) the term 'payment error rate' means the percentage of all allotments issued in a fiscal year by a State agency which are—

"(i) issued to households which fail to meet the eligibility requirements established under section 5 or 6; and

"(ii) overissued to households which meet such requirements.

"(2) The Secretary shall institute an error rate reduction program under which each State agency shall, other than for good cause as determined by the Secretary, pay to the Secretary or have withheld by the Secretary as described in paragraph (4), the dollar value equivalent of the any payment error rate of the State agency which is over 3 per centum, as determined by the Secretary.

"(3) If the Secretary makes a claim against a State for payment under paragraph (2), the State may seek administrative and judicial review of such claim under the procedures set forth in section 14.

"(4) If a claim made against a State for payment under paragraph (2) is ultimately determined to be valid or is not contested by the State, the claim shall be collected by the Secretary through State payment, withholding amounts otherwise payable to the State agency under this Act, or other mechanisms authorized by subchapter II of chapter 37 of title 31, United States Code. Such a claim may be collected on a monthly, quarterly, semiannual, or annual basis, as determined by the Secretary.".

(b)(1) Section 11 (7 U.S.C. 2020) is amended—

(A) by striking out "section 16(e)" in subsection (e)(3) and inserting in lieu thereof "sections 16(d)"; and

(B) by striking out "sections 16(a) and 16(c)" in the second sentence of subsection (g) and inserting in lieu thereof "section 16(a)".

(2) Section 18(e) (7 U.S.C. 2027(e)) is amended by striking out the second sentence.

(c)(1) Section 11 (7 U.S.C. 2020) (as amended by section 604(a) of this Act) is amended by striking out subsection (h) and redesignating subsections (i) through (o) as subsections (h) through (n), respectively.

(2) Section 11(e)(2) (7 U.S.C. 2020(e)(2)) is amended by striking out "subsection (i)" and inserting in lieu thereof "subsection (h)".

(3) The first sentence of section 18(e) (7 U.S.C. 2027(e)) is amended by striking out "11(g) and (h)" and inserting in lieu thereof "11(g)".

TITLE IX—EFFECTIVE DATE

EFFECTIVE DATE

SEC. 901. Except as provided in sections 103(c) and 702(c) of this Act, the amendments made by this Act shall become effective on October 1, 1983.

○

98TH CONGRESS
1ST SESSION

S. 1993

To amend the Food Stamp Act of 1977 to reduce fraud, waste, and abuse in the food stamp program through improved means of preventing and detecting fraud, collecting overissuances of coupons, and reducing State agency payment error rates, and for other purposes.

IN THE SENATE OF THE UNITED STATES

OCTOBER 25 (legislative day, OCTOBER 24), 1983

Mr. HELMS introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Food Stamp Act of 1977 to reduce fraud, waste, and abuse in the food stamp program through improved means of preventing and detecting fraud, collecting overissuances of coupons, and reducing State agency payment error rates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE; TABLE OF CONTENTS

SECTION 1. (a) This Act may be cited as the "Food Stamp Integrity and Accountability Act".

(b) The table of contents for this Act is as follows:

TABLE OF CONTENTS

Sec. 1. Short title; table of contents.
Sec. 2. References to the Food Stamp Act of 1977.

TITLE I—DEFINITIONS

Sec. 101. Certification period.
Sec. 102. Household definition.

TITLE II—ELIGIBLE HOUSEHOLDS

Sec. 201. Student loans, grants, and income.
Sec. 202. Nonrecurring lump-sum payments.
Sec. 203. Financial resources.

TITLE III—ELIGIBILITY DISQUALIFICATIONS

Sec. 301. Aliens.

TITLE IV—ISSUANCE AND USE OF COUPONS

Sec. 401. Cash change.

TITLE V—ADMINISTRATION

Sec. 501. Certification of information.
Sec. 502. Improved verification.
Sec. 503. Expedited coupon issuance.
Sec. 504. Photographic identification cards.
Sec. 505. Wage matching.
Sec. 506. Fraud detection offices.
Sec. 507. Interest and dividend information.

TITLE VI—DISQUALIFICATION OF RETAIL FOOD STORES AND WHOLESALE FOOD CONCERNS

Sec. 601. Eligibility for participation in the special supplemental food program.

TITLE VII—COLLECTION AND DISPOSITION OF CLAIMS

Sec. 701. Liability for overissuance of coupons.
Sec. 702. Collection of claims.
Sec. 703. Food stamp intercept of unemployment benefits.
Sec. 704. Food stamp intercept of Federal tax refunds.

TITLE VIII—ADMINISTRATIVE AND JUDICIAL REVIEW

Sec. 801. Stays of administrative action.

TITLE IX—ADMINISTRATIVE COST-SHARING AND QUALITY CONTROL

Sec. 901. State agency liability for errors.
Sec. 902. Geographical error-prone profiles.

TITLE X—EFFECTIVE DATE

Sec. 1001. Effective date.

REFERENCES TO THE FOOD STAMP ACT OF 1977

SEC. 2. Except as otherwise specifically provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.).

TITLE I—DEFINITIONS

CERTIFICATION PERIOD

SEC. 101. (a) The second sentence of section 3(c) (7 U.S.C. 2012(c)) is amended by striking out "at least six months but".

(b) Section 3(c) (7 U.S.C. 2012(c)) is further amended by adding at the end thereof the following new flush-to-the-left-margin sentence:

"Notwithstanding the previous provisions of this subsection, for households that report that they have no income (after the exclusions and deductions provided for in section 5 (d) and (e)), the certification period shall be not more than three months.".

HOUSEHOLD DEFINITION

SEC. 102. Section 3(i) (7 U.S.C. 2012(i)) is amended—

(1) by striking out the first sentence and inserting in lieu thereof the following new sentence: " 'Household' means (1) an individual who lives alone and cus-

tomarily purchases food and prepares meals for home consumption; (2) except as provided in clauses (3) and (4), a group of individuals who live together and customarily purchase food and prepare meals for home consumption; (3) parents or siblings who, while living with others, purchase food and prepare meals for home consumption separate and apart from the others if one of the parents or siblings is an elderly or disabled member; or (4) at the option of the State agency, one or more individuals who, while living with others, customarily purchase food and prepare meals for home consumption separate and apart from the others.";

(2) by striking out "clause (1) of" in the second sentence; and

(3) by inserting after the second sentence the following new sentence: "Subject to the previous provisions of this subsection relating to parents and children, or siblings, who live together, a State agency may prescribe criteria to determine whether one or more individuals who, while living with others, customarily purchase food and prepare meals for home consumption separate and apart from the others qualify as a household under clause (4) of the first sentence of this subsection.".

TITLE II—ELIGIBLE HOUSEHOLDS

STUDENT LOANS, GRANTS, AND INCOME

SEC. 201. (a)(1) Section 5(d) (7 U.S.C. 2014(d)) is amended by striking out clause (3).

(2) Section 5(f)(1)(B) (7 U.S.C. 2014(f)(1)(B)) is amended by striking out "nonexcluded income of the type described in subsection (d)(3) of this section" and inserting in lieu thereof "income from educational loans on which payment is deferred, grants, scholarships, fellowships, veterans' educational benefits, and the like".

(b) Section 6(e) (7 U.S.C. 2015(e)) is amended by adding at the end thereof the following new sentence: "The income and financial resources of an individual rendered ineligible to participate in the food stamp program as a result of this subsection shall be considered in determining the eligibility and the value of the allotment of the household of which the individual is a member.".

NONRECURRING LUMP-SUM PAYMENTS

SEC. 202. (a) Section 5(d) (7 U.S.C. 2014(d)) (as amended by section 201(a)(1) of this Act) is amended by striking out clause (8) and redesignating clauses (4), (5), (6), (7), (9), (10), (11), and (12) as clauses (3), (4), (5), (6), (7), (8), (9), and (10), respectively.

(b) Section 5(f)(1) (7 U.S.C. 2014(f)(1)) is amended—

(1) by inserting ", other than income of the type described in subparagraph (C)," after "one year" in subparagraph (A); and

(2) by adding at the end thereof the following new subparagraph:

"(C) Household income in the form of a nonrecurring lump-sum payment (including, but not limited to, an income tax refund, rebate, or credit, a retroactive lump-sum social security or railroad retirement pension payment, or a retroactive lump-sum insurance settlement) shall be treated in a manner consistent with the treatment of such income under section 402(a)(17) of the Social Security Act (42 U.S.C. 602(a)(17)).".

FINANCIAL RESOURCES

SEC. 203. The second sentence of section 5(g) (7 U.S.C. 2014(g)) is amended—

(1) by striking out "and," after "$4,500,"; and

(2) by inserting before the period at the end thereof the following: ", and any real property (other than the principal dwelling house of the household, the lot upon which the house is situated (except that the amount of the lot which may be excluded shall be limited to ten acres), and a burial plot for each member of the household)".

TITLE III—ELIGIBILITY DISQUALIFICATIONS

ALIENS

SEC. 301. The last sentence of section 6(f) (7 U.S.C. 2015(f)) is amended by striking out "(less a pro rata share)".

TITLE IV—ISSUANCE AND USE OF COUPONS

CASH CHANGE

SEC. 401. Section 7(b) (7 U.S.C. 2016(b)) is amended by striking out ": *Provided further,*" and all that follows through the period at the end thereof and inserting in lieu thereof a period.

TITLE V—ADMINISTRATION

CERTIFICATION OF INFORMATION

SEC. 501. Section 11(e)(2) (7 U.S.C. 2020(e)(2)) is amended—

(1) by striking out the semicolon at the end thereof and inserting in lieu thereof a period; and

(2) by adding at the end thereof the following: "Each adult member of a household that is applying for a coupon allotment or is required to file a periodic or other report under section 6(c)(1) shall be required to certify in writing, under penalty of perjury, the truth of the information contained in the application for the allotment or the report, respectively;".

IMPROVED VERIFICATION

SEC. 502. Section 11(e)(3) (7 U.S.C. 2020(e)(3)) is amended—

(1) by striking out "only" after "verification";

(2) by striking out "other than that determined to be excluded by section 5(d) of this Act";

(3) by striking out "and" after "Act)" and inserting in lieu thereof ", household size, and such other eligibility factors as the State agency determines to be necessary, including";

(4) by striking out ", whether questionable or not, the size of any applicant household and"; and

(5) by inserting "and area" after "error-prone household".

EXPEDITED COUPON ISSUANCE

SEC. 503. Paragraph (9) of section 11(e) (7 U.S.C. 2020(e)(9)) is amended to read as follows:

"(9) at the option of the State agency, for the provision of coupons on an expedited basis to categories of households designated by the State agency to be in immediate need because such households each—

"(A)(i) have household income, as described in section 5(d), that is less than $85 per month; or "(ii) are destitute migrant or seasonal farmworker households; and

"(B) have financial resources, as described in section 5(g), that do not exceed $100;".

PHOTOGRAPHIC IDENTIFICATION CARDS

SEC. 504. Section 11(e)(16) (7 U.S.C. 2020(e)(16)) is amended—

(1) by striking out "in those" and all that follows through "integrity,";

(2) by striking out the semicolon at the end thereof and inserting in lieu thereof a period; and

(3) by adding at the end thereof the following: "The State agency may permit a household to comply with this paragraph by presenting a photographic identification card used to receive assistance under a welfare or public assistance program;".

WAGE MATCHING

SEC. 505. Paragraph (19) of section 11(e) (7 U.S.C. 2020(e)(19)) is amended to read as follows:

"(19) that—

"(A) in any case in which information is available from agencies administering State unemployment compensation laws under section 303(d) of the Social Security Act (42 U.S.C. 503(d)), the information shall be requested and utilized by the

State agency to the extent permitted under such section;

"(B) in any case in which information is not available from agencies administering State unemployment compensation laws under section 303(d) of the Social Security Act—

"(i) information available from the Social Security Administration under section 6103(l)(7) of the Internal Revenue Code of 1954 shall be requested and utilized by the State agency to the extent permitted under such section; or

"(ii) similar information available from other sources shall be requested and utilized by the State agency to the extent approved by the Secretary and permitted by any law controlling access to the information.".

FRAUD DETECTION OFFICES

SEC. 506. Section 11(e) (7 U.S.C. 2020(e)) is amended—

(A) by striking out "and" at the end of paragraph (20);

(B) by striking out the period at the end of paragraph (21) and inserting in lieu thereof a semicolon; and

(C) by adding at the end thereof the following new paragraph:

"(22) in a project area in which five thousand or more households participate in the food stamp program, for the establishment and operation of an office to investigate, and assist in the prosecution of, fraud in the food stamp program;".

INTEREST AND DIVIDEND INCOME

SEC. 507. (a) Section 11 (7 U.S.C. 2020) is amended by adding at the end thereof the following new subsection:

"(o) The Secretary, in consultation with the Inspector General of the Department of Agriculture, may require a State agency, the Inspector General, or both, to request and utilize information available under section 6103(l)(9) of the Internal Revenue Code of 1954 pertaining to the interest and dividend income of the members of the households in any State or area if the Secretary determines that such action would aid in protecting the integrity of the food stamp program in such State or area.".

(b)(1) Section 6103(l) of the Internal Revenue Code of 1954 (relating to disclosure of returns and return information for purposes other than tax administration) is amended by adding at the end thereof the following new paragraph:

"(9) DISCLOSURE OF CERTAIN RETURN INFORMATION TO FEDERAL, STATE, AND LOCAL AGENCIES

ADMINISTERING FEDERALLY FUNDED NEEDS-BASED PROGRAMS.—

"(A) RETURN INFORMATION FROM INTERNAL REVENUE SERVICE.—The Secretary shall, upon written request, disclose interest and dividend data from automated files containing return information from information returns made pursuant to sections 6041, 6042, and 6049 to officers and employees of an appropriate Federal, State, or local agency administering a federally funded needs-based program.

"(B) RESTRICTION ON DISCLOSURE.—The Secretary shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, determining an individual's eligibility for benefits, or the amount of benefits, under a federally funded needs-based program.".

(2)(A) Paragraph (2) of section 6103(a) of such Code is amended by striking out "or of any local child support enforcement agency" and inserting in lieu thereof ", any local child support enforcement agency, or any local agency administering a federally funded needs-based program".

(B) Subparagraph (A) of section 6103(p)(3) of such Code (relating to records of inspection and disclosure) is amended by striking out "or (8)" and inserting in lieu thereof "(8), or (9)".

(C) Paragraph (4) of section 6103(p) of such Code (relating to safeguards) is amended by striking out "or (8)" in so much of such paragraph as precedes subparagraph (A) thereof and inserting in lieu thereof "(8), or (9)".

(D) Clause (i) of section 6103(p)(4)(F) of such Code is amended by striking out "or (8)" and inserting in lieu thereof "(8), or (9)".

(E) The first sentence of paragraph (2) of section 7213(a) of such Code is amended by striking out "or (8)" and inserting in lieu thereof "(8), or (9)".

TITLE VI—DISQUALIFICATION OF RETAIL FOOD STORES AND WHOLESALE FOOD CONCERNS

ELIGIBILITY FOR PARTICIPATION IN THE SPECIAL SUPPLEMENTAL FOOD PROGRAM

SEC. 601. Section 12 (7 U.S.C. 2021) is amended by adding at the end thereof the following new subsection:

"(e) Notwithstanding section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786), a retail food store or wholesale food concern which has been disqualified under subsection (a) shall be ineligible during the period of disqualification to participate in the special supplemental food program established by section 17 of such Act.".

TITLE VII—COLLECTION AND DISPOSITION OF CLAIMS

LIABILITY FOR OVERISSUANCE OF COUPONS

SEC. 701. Section 13(a) (7 U.S.C. 2022(a)) is amended—

(1) by inserting "(1)" after the subsection designation; and

(2) by adding at the end thereof the following new paragraph:

"(2) Each adult member of a household shall be jointly and severally liable for the value of any overissuance of coupons.".

COLLECTION OF CLAIMS

SEC. 702. (a) The first sentence of section 13(b)(2)(A) (7 U.S.C. 2022(b)(2)(A)) is amended by striking out "and claims arising from an error of the State agency".

(b) Section 13(b) (7 U.S.C. 2022(b)) is amended—

(1) by striking out "may" each place it appears in paragraphs (1)(B) and (2)(B) and inserting in lieu thereof "shall"; and

(2) by inserting ", unless the State agencies demonstrate to the satisfaction of the Secretary that the other means are not cost effective" before the period at the end of paragraphs (1)(B) and (2)(B).

FOOD STAMP INTERCEPT OF UNEMPLOYMENT BENEFITS

SEC. 703. (a) Section 13 (7 U.S.C. 2022) is amended by adding at the end thereof the following new subsection:

"(c)(1) A State agency may determine on a periodic basis, from information supplied pursuant to section 3(b) of the Wagner-Peyser Act (29 U.S.C. 49b(b)), whether an individual receiving compensation under the State's unemployment compensation law (including amounts payable pursuant to an agreement under a Federal unemployment compensation law) owes an uncollected overissuance.

"(2) A State agency may recover an uncollected overissuance—

"(A) by entering into an agreement with an individual described in paragraph (1) under which specified amounts will be withheld from unemployment compensation otherwise payable to the individual and furnishing a copy of the agreement to the State agency administering the unemployment compensation law, or

"(B) in the absence of an agreement, by obtaining a writ, order, summons, or other similar process in the nature of garnishment from a court of competent jurisdiction to require the withholding of amounts from the unemployment compensation.

"(3) As used in this subsection, the term 'uncollected overissuance' means the amount of an overissuance of coupons, as determined under subsection (b)(1), which has not been recovered pursuant to subsection (b)(1).".

(b)(1) Section 11(e) (7 U.S.C. 2020(e)) (as amended by section 506 of this Act) is amended by adding at the end thereof the following new paragraph:

"(23) at the option of the State, for procedures necessary to obtain payment of uncollected overissuance of coupons from unemployment compensation pursuant to section 13(c); and".

(2) Section 3(b) of the Wagner-Peyser Act (29 U.S.C. 49b(b)), as amended by sections 181(i) and 501 of the Job Training Partnership Act (96 Stat. 1356 and 1392), is amended—

(A) by striking out "or" the second place it appears and inserting in lieu thereof a comma; and

(B) by inserting after "such Act," the following: "or of a State agency charged with the administration of the food stamp program in a State under the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.),".

(3) Section 303(d) of the Social Security Act (42 U.S.C. 503(d)) is amended—

(A) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively; and

(B) by inserting after paragraph (1) the following new paragraph:

"(2)(A) The State agency charged with the administration of the State law—

"(i) may require each new applicant for unemployment compensation to disclose whether the applicant owes an uncollected overissuance (as defined in section 13(c)(3) of the Food Stamp Act of 1977) of food stamp coupons,

"(ii) may notify the State food stamp agency to which the uncollected overissuance is owed that the applicant has been determined to be eligible for unemployment compensation if the applicant discloses under clause (i) that the applicant owes an uncollected overissuance and the applicant is determined to be so eligible,

"(iii) may deduct and withhold from any unemployment compensation otherwise payable to an individual—

"(I) the amount specified by the individual to the State agency to be deducted and withheld under this clause,

"(II) the amount (if any) determined pursuant to an agreement submitted to the State food stamp agency under section 13(c)(2)(A) of the Food Stamp Act of 1977, or

"(III) any amount otherwise required to be deducted and withheld from the unemployment compensation pursuant to section 13(c)(2)(B) of such Act, and

"(iv) shall pay any amount deducted and withheld under clause (iii) to the appropriate State food stamp agency.

"(B) Any amount deducted and withheld under subparagraph (A)(iii) shall for all purposes be treated as if it were paid to the individual as unemployment compensation and paid by the individual to the State food stamp agency to which the uncollected overissuance is owed as repayment of the individual's uncollected overissuance.

"(C) For purposes of this paragraph, the term 'unemployment compensation' means any compensation payable under the State law (including amounts payable pursuant to an agreement under a Federal unemployment compensation law).

"(D) A State food stamp agency to which an uncollected overissuance is owed shall reimburse the State agency charged with the administration of the State unemployment compensation law for the administrative costs incurred by the State agency under this paragraph which are attributable to repayment of uncollected overissuance to the State food stamp agency to which the uncollected overissuance is owed.".

FOOD STAMP INTERCEPT OF FEDERAL TAX REFUNDS

SEC. 704. (a) Section 13 (7 U.S.C. 2022) (as amended by section 703(a) of this Act) is amended by adding at the end thereof the following new subsection:

"(d)(1) Except as provided in paragraph (7), a State agency may inform the Secretary of the Treasury of the identity of an individual who owes an uncollected overissuance and the amount of the uncollected overissuance.

"(2) Upon receiving notice from a State agency pursuant to paragraph (1), the Secretary of the Treasury shall determine whether any amounts, as refunds of Federal taxes paid, are payable to the named individual (regardless of whether the individual filed a tax return as a married or unmarried individual). If the Secretary of the Treasury finds that an amount is payable, the Secretary of the Treasury shall withhold from the refunds an amount equal to the amount of the uncollected overissuance, and pay the amount to the State agency (together with notice of the individual's home address).

"(3) If the offset procedure is applied for the benefit of a State agency pursuant to paragraph (2), the State agency must pay a fee to the Secretary of the Treasury to reimburse the Secretary for the full cost of applying such procedure.

Such fees shall be credited to the appropriation accounts which bore all or part of the costs involved in making the collections.

"(4) The Secretary of the Treasury shall issue regulations, approved by the Secretary, which prescribe—

"(A) the time at which a State agency must submit notice of an uncollected overissuance;

"(B) the manner in which the notice must be submitted;

"(C) the necessary information which must be contained in or accompany the notice; and

"(D) the amount of the fee that a State agency must pay to reimburse the Secretary pursuant to paragraph (3).

"(5) The Secretary of the Treasury shall advise the Secretary, at least annually, of—

"(A) the State agencies which have furnished notices of uncollected overissuances under this subsection;

"(B) the number of cases in each State with respect to which the notices have been furnished under this subsection;

"(C) the amount of uncollected overissuances sought to be collected under this subsection by each State; and

"(D) the amount of the collections actually made under this subsection in the case of each State agency.

"(6) As used in this subsection, the term 'uncollected overissuance' means the amount of an overissuance of coupons, as determined under subsection (b)(1), which has not been collected pursuant to subsection (b)(1) or (c) within three months of the determination of the overissuance.

"(7) An uncollected overissuance shall be subject to the offset procedure described in this subsection if the amount of the uncollected overissuance in the current or previous taxable years and any other amounts owed to the State agency under similar provisions of Federal law equals $100 or more.".

(b)(1) Section 11(e) (7 U.S.C. 2020(e)) (as amended by section 703(b)(1) of this Act) is amended by adding at the end thereof the following new paragraph:

"(24) at the option of the State agency, for procedures necessary to obtain payment of uncollected overissuances of coupons from Federal tax refunds pursuant to section 13(d).".

(2) The proviso of the first sentence of section 16(a) (7 U.S.C. 2025(a)) is amended by striking out "section 13(b)(1) of this Act" and inserting in lieu thereof "subsections (b)(1), (c), and (d) of section 13".

(3) The first sentence of section 18(e) (7 U.S.C. 2027(e)) is amended by inserting ", (c), and (d)" after "13(b)".

(4) Section 6402(c) of the Internal Revenue Code of 1954 is amended—

(A) by striking out so much of such subsection as precedes "The amount of" and inserting in lieu thereof the following:

"(c) OFFSETS.—

"(1) OFFSET OF PAST DUE SUPPORT AGAINST OVERPAYMENTS.—";

(B) by striking out "subsection" in the third sentence of paragraph (1) and inserting in lieu thereof "paragraph"; and

(C) by adding at the end thereof the following new paragraph:

"(2) OFFSET OF FOOD STAMP OVERISSUANCES AGAINST OVERPAYMENTS.—The amount of any overpayment to be refunded to the person making the overpayment shall be reduced by the amount of any uncollected overissuance (as defined in section 13(d)(6) of the Food Stamp Act of 1977) of food stamp coupons owed by that person and with respect to which the Secretary has been notified by a State agency in accordance with section 13(d) of the Food Stamp Act of

1977. The Secretary shall remit the amount by which the overpayment is so reduced to the State agency to which the uncollected overissuance is due and notify the person who made the overpayment that so much of the overpayment as was necessary to satisfy the person's obligation for an uncollected overissuance has been paid to the State agency. This paragraph shall be applied to an overpayment after such overpayment has been reduced (pursuant to paragraph (1)) by the amount (if any) of past-due support owed by such person and prior to the crediting of such overpayment against such person's future liability for an internal revenue tax.".

(c) The amendments made by this section shall apply to taxable years ending after December 31, 1983.

TITLE VIII—ADMINISTRATIVE AND JUDICIAL REVIEW

STAYS OF ADMINISTRATIVE ACTION

SEC. 801. The last sentence of section 14(a) (7 U.S.C. 2023(a)) is amended—

(1) by striking out "an application" and inserting in lieu thereof "on application"; and

(2) by striking out "of irreparable injury" and inserting in lieu thereof "required under applicable law

governing the granting of stays of such administrative action".

TITLE IX—ADMINISTRATIVE COST-SHARING AND QUALITY CONTROL

STATE AGENCY LIABILITY FOR ERRORS

SEC. 901. (a) Section 16 (7 U.S.C. 2025) is amended—

(1) by striking out subsection (c);

(2) in subsection (d)(2)(A)—

(A) by striking out "exceeds—" and all that follows through "subparagraph (B)," and inserting in lieu thereof "exceeds 3 per centum, the Secretary shall"; and

(B) by striking out "amounts" and inserting in lieu thereof "amount";

(3) by striking out subparagraph (B) of subsection (d)(2) and inserting in lieu thereof the following new subparagraph:

"(B) The Secretary shall institute an error rate liability program under which each State agency shall be liable to the Secretary for an amount equal to the product of multiplying—

"(i) the per centum by which the State agency's payment error rate for any fiscal year exceeds 3 per centum; by "(ii) the total dollar value of all coupons issued by the State agency during the fiscal year."; and

(4) by striking out paragraph (3) of subsection (d) and inserting in lieu thereof the following new paragraph:

"(3)(A) With respect to each fiscal year, the Secretary shall—

"(i) determine the total dollar loss to the United States as a result of payment error rates above 3 per centum by all State agencies during the most recent quality control period for which federally adjusted data is available and the proportion of the loss which was attributable to each State agency;

"(ii) estimate the total dollar loss to the United States as a result of payment error rates above 3 per centum by all State agencies during the fiscal year (based on the loss described in clause (i)) and the proportion of the estimated loss which the Secretary determines will be attributable to each State agency (based on the proportion described in clause (i)); and

"(iii) estimate the amount of the liability of each State agency under this subsection for the fiscal year (based on the proportion of the estimated loss described in clause (ii)).

"(B) The Secretary shall reduce a State agency's federally funded share of administrative costs by an amount equal to the estimated liability of the State agency under subparagraph (A)(iii).

"(C) If the estimated liability of the State agency under subparagraph (A)(iii) is more than the State agency's federally funded share of administrative costs, the State agency shall pay to the Secretary, at such times as the Secretary may require, an amount equal to the difference between the estimated liability of the State agency and the State agency's federally funded share of administrative costs.

"(D) After the end of each fiscal year—

"(i) the Secretary shall determine the actual liability of each State agency under paragraph (2) for the fiscal year; and

"(ii)(I) in any case in which the actual liability of the State agency for the fiscal year is less than the amount collected from the State agency under this paragraph during the fiscal year, the Secretary shall adjust the State agency's federally funded share of administrative costs in an amount equal to the difference between the actual liability of the State agency and the amount collected from the State agency; and

"(II) in any case in which the actual liability of the State agency for the fiscal year is more than the amount collected from the State agency under this paragraph during the fiscal year, the State shall pay to the Secretary an amount equal to the difference between the actual liability of the State agency and the amount collected from the State agency.".

(b)(1) Section 16 (7 U.S.C. 2025) (as amended by subsection (a) of this section) is amended by redesignating subsections (d) through (g) as subsections (c) through (f), respectively.

(2) Section 11(e)(3) (7 U.S.C. 2020(e)(3)) is amended by striking out "section 16(e)" and inserting in lieu thereof "section 16(d)".

(3) The second sentence of section 11(g) (7 U.S.C. 2020(g)) is amended by striking out "sections 16(a) and 16(c)" and inserting in lieu thereof "section 16(a)".

(4) Section 16(c)(2)(A) (as redesignated by paragraph (1)) is amended by striking out "subsection (g)" and inserting in lieu thereof "subsection (f)".

(5) Section 18(e) (7 U.S.C. 2027(e)) is amended by striking out the second sentence.

(c)(1) Notwithstanding section 16(g)(1) of the Food Stamp Act of 1977 (as it existed before the amendment made by section 180(a)(2) of the Omnibus Budget Reconciliation Act of 1982 (96 Stat. 782)) or section 16(d)(2)(A) of the Food Stamp Act of 1977 (as it existed before the amendment made by subsection (a)(2) of this section), a State agency shall pay to, or have withheld by, the Secretary of Agriculture the amount described in such section and may not be excepted from the payment or withholding of the amount on the basis of good cause as determined by the Secretary.

(2) This subsection shall become effective on December 1, 1983.

GEOGRAPHICAL ERROR-PRONE PROFILES

SEC. 902. Section 16 (7 U.S.C. 2025) (as amended by section 901(b)(1) of this Act) is amended by adding at the end thereof the following new subsection:

"(g)(1) The Inspector General of the Department of Agriculture may use quality control information made available under this section to determine which project areas have payment error rates (as defined in subsection (c)(1)) which impair the integrity of the food stamp program.

"(2) If the Inspector General determines under paragraph (1) that a project area has a payment error rate which impairs the integrity of the food stamp program, the Secretary may impose requirements on the State agency which administers the food stamp program in the project area which the Secretary reasonably determines are necessary to reduce the rate and which are consistent with the purposes of this Act.

"(3) No later than fourteen months after the date of the enactment of the Food Stamp Integrity and Accountability Act, and each twelve months thereafter, the Secretary shall submit a report which lists project areas described in paragraph (1) and describes any requirements imposed on State agencies under paragraph (2) to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate.".

TITLE X—EFFECTIVE DATE

EFFECTIVE DATE

SEC. 1001. Except as provided in sections 704(c) and 901(c)(2) of this Act, this Act and the amendments made by this Act shall become effective on January 1, 1984.

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STATEMENT OF RAY SCOTT, DIRECTOR, ARKANSAS DEPARTMENT OF HUMAN SERVICES, LITTLE ROCK, ARK.

MR. CHAIRMAN: I would like to bring before this committee four issues that the State of Arkansas finds significant with respect to the Food Stamp Program.

First let me say that the Food Stamp Program is our first line of defense against hunger. Arkansas has a relatively low tax base; a primarily agricultural economy and an unemployment rate of approximately 9.0%. One in 7 Arkansans participates in the program. Despite what the critics of the program say, we believe the Food Stamp Program is essentially sound and we support the national, uniform concept of the program.

STABILITY

One of the foremost issues in the Food Stamp Program in recent years is the issue of program stability. Program stability has been a widely debated and sometimes misunderstood concept. In some instances states have been perceived to be making contradictory requests because they supported program stability and at the same time supported certain changes they believed would help the program.

Arkansas supports program stability. We do not mean by this however, that no changes should ever be made to the program. In 1983 there were at least 12 separate regulatory packages issued which changed the Food Stamp Program. These issuances caused the agency to revise about 40% of the food stamp manual with some sections being revised more than once. I would like to contrast this with the AFDC Program in Arkansas which had no changes during 1983. The concept we support is one of limited change. No more than 4 to 5 regulatory changes should be attempted in a year and those changes should allow states 120 days for implementation.

The reason that we believe changes should be limited is that they are expensive in several ways. Changes require policy development, printing, distribution, and worker training. More importantly they generally have a negative impact on a state's error rate for some months following the implementation of the change. With the current error rate sanctions we have in Food Stamps and given the cost of the program, it seems only prudent that *any* change made should have to pass the test of being important enough to be one of the 4 or 5 changes made to the program in a given year.

One change that is currently pending in USDA that we believe to be unnecessary is the draft of the "Williams Regulations." These regulations are a re-write of Parts 271-274 of the regulations and will require extensive changes in the State Food Stamp manual. In examining the USDA drafts we find that the changes will do little to improve program performance and in fact will increase program complexity, and may increase the error rate. This relatively massive change should not be implemented. Its implementation will be counter productive.

ERROR RATES

I mentioned error rates earlier as a problem at least partly associated with changes in the program. Error rates have been a topic of intense debate for the past several months as the merits of various error rate limits are discussed. We currently operate under a 7% over-issuance are ineligible rate for fiscal 84 and a 5% rate for fiscal 85. Some program critics contend that because states do not pay a portion of the food stamps benefits, they are not interested in controlled food stamp error rates. Arkansas' last QC period showed an error rate of 7.1% and it is currently 7.4% despite the implementation of a major program change—Monthly Reporting. There are several states that cannot boast of an error rate this low in their AFDC programs despite the fact that they do share in the cost of the AFDC payments.

I can assure you that Arkansas the error rate is a continuing concern. We have resolved to make every reasonable effort to reduce our error rate to below the standards called for in the regulations.

We do not object to the current regulatory standards, although we feel that the 3% rate proposed by the administration is too low. One of the main reasons we believe it to be too low are the flaws that exist in both the QC system and its application.

We recommend that an impartial national task force be assembled to thoroughly examine the current QC system and make recommendations for its improvement. The definition of an error; the lack of coordination between QC and program procedures, the dreadful problems we have encountered with the installation and use of both the automated and integrated QC system and the questionable federal re-review process are all areas we believe need major overhaul.

MRRB

I would now like to focus briefly on an issue that relates directly to the error rate issue—Monthly Reporting and Retrospective Budgeting or MRRB. Arkansas would like to see MRRB become a state option. We believe this is needed because MRRB is not a proven error reducer. The latest Illinois study showed that it increases both cost and error rate. Since the states will be held liable for an excessive error rate under the current error rate standards, the question must be asked—if we are to be held responsible for our error rate, is it fair to mandate a procedure that may increase our error rate?

MAIL LOSS TOLERANCE RATE

The last issue I would like to discuss is a particularly sore point with our State. FNS has implemented regulations that require each state project area to have a mail loss rate under .5% per quarter except for counties that mail less than $300,000 in a quarter which must not exceed $1,500 in mail losses. For the quarter October-December, 1983 Arkansas' mail loss rate was .3%, however three of our counties (which are our project areas) exceed the .5% tolerance and FNS has billed us $7,694 for excessive mail losses.

We do not object to a mail loss tolerance level, however we contend that it should be based on cost effectiveness and that mail issuance should not be arbitrarily singled out for the tolerance rate concept. And yet, that is precisely what has happened. Our *total* cost per mail issuance transaction is 80¢; 40¢ federal cost 40¢ state cost. Our mail losses for the October-December quarter totalled 35¢ per case—which is all federal cost. Therefore the total cost to the federal government for each of our mail issuance transactions is 75¢. I would like to contrast that with the *national* contract with the United Postal Service for ATP redemption. It is currently $1.65--82.5¢ of which is federal cost. And that cost is only for ATP redemption—it does not include the cost of producing mailing and reconciling the ATP, half of which is borne by the federal government.

The point in this instance is that there are no loss standards for ATP issuance systems comparable to the mail loss standards for mail issuance. We believe this regulation should be changed so as not to penalize states who save the Federal Government money.

I would like to close my remarks at this time with the observation that while no state that I am aware of operates the food stamp program as economically as Arkansas does with as low an error rate as we have, we are not complacent. We believe we can improve the program and we are diligently applying our efforts to that task.

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